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Yang Side To Be Named Chief of Taiwan Affairs Office

HK250419 Hong Kong HONGKONG STANDARD in English 25 Feb 88 p 6

[Excerpts] China's "mystery" man on Taiwan affairs has stepped out into the light, revealing himself to be an old soldier and an experienced "United Front" worker.

General Yang Side, 67, became known for his role in Taiwan affairs when he flew into Hong Kong in mid-1986 to take charge of negotiations with Taiwan for the return of the CAL [China Airlines] airliner which defecting pilot Wang Shi-cheuk flew to Guangzhou.

That was the first time mainland and Taiwan officials sat down together for direct talks, though the ruling Kuomintang insists to this day that they had nothing to do with it.

But through all the long and difficult negotiations, Gen Yang was never once seen in public. Newsmen caught not so much as a glimpse of him.

Gen Yang serves under General Yang Shangkun, the highest-ranking soldier still in the government.

A native of Shandong Province, the United Front expert joined the party in 1938; after 1945, he worked in the liaison division of the People's Liberation Army in Shandong.

He was later made political commissar of a division under the 34th Army, which was a combined force of Kuomintang defectors and communists.

Immediately after the Cultural Revolution, Gen Yang became the director of the Office of the Taiwan Affairs Group.

Although paramount leader Mr Deng Xiaoping and Gen Yang Shangkun are the masterminds of party policies on Taiwan, the United Front expert is believed to be the man who implements them.

He is expected to head the proposed Taiwan Affairs Office under the State Council when it is set up in accordance with the new policy of separating government and party affairs.

Beijing Sets Up Personnel Appraisal, Testing Center

*OW021058 Beijing XINHUA in English
0849 GMT 2 Mar 88*

[Excerpts] Beijing, March 2 (XINHUA)—A personnel appraisal and testing center has been set up in Beijing in a bid to make personnel management more scientific, today's CHINA YOUTH NEWS says.

Formed by a group of professionally-trained psychologists, the center will study ways to measure ability, knowledge, personality and aptitude. The research results will be used to tap manpower resources and develop personnel management.

The non-government undertaking has a contract to develop an appraisal system for government employees, a major goal of the seventh five-year plan (1986-1990).

The center will also study personnel appraisal programs designed for a variety of purposes, train cadres in charge of personnel affairs, and provide guidance for self-appraisal, employment and college entrance examinations.

NATIONAL AFFAIRS, POLICY

'New Phase' in Reforming Country's Economic System

40060135 Beijing ZHONGGUO JINGJI TIZHI GAIGE (CHINA ECONOMIC SYSTEM REFORM) in Chinese No 12, 23 Dec 87 pp 7-8

[Article by Gao Shangquan (7559 1424 0356): "A New Phase in Reforming China's Economic System")

[Text] The key tasks stipulated by the 13th CPC Congress are to speed up and intensify China's economic reforms. Party General Secretary Zhao Ziyang pointed out in his report to the Congress that "These reforms are the only way to stimulate China's economy, are in accord with the will of the people and the general trend of events, and are irreversible." The CPC must analyze his words very carefully. The whole CPC and everyone throughout China are now studying his report and acting in the spirit of the 13th CPC Congress. The two reform journals (CHINA ECONOMIC SYSTEM REFORM, and REFORM) must naturally play their proper roles in studying and acting in the spirit of the 13th CPC Congress. Therefore, it is very necessary and significant for the CPC to hold those study and implementation discussions.

China's economic reforms have been being carried out for the 9 years since the 3d Plenum of the 11th CPC Central Committee in 1978 and have already undergone two phases. The 1st phase lasted from 1978 to 1984. This phase of the reforms was successfully carried out mainly in the rural areas while certain experiments were conducted in the cities. The 2d phase lasted from 1984 to 1987. After the 3d Plenum of the 12th CPC Central Committee passed the "CPC Central Committee Resolution on Economic Reform" in 1984, the focus of the reforms was transferred from the rural areas to the cities and comprehensive reforms were launched. Then the 13th CPC Congress was convened and it was said that China's economic reforms had entered a new and 3d phase. The major theoretical breakthrough of this new phase is that the conditions have been created to speed up and intensify the reforms.

1) The 13th CPC Congress fully set forth the theory of the initial stage of socialism and pointed out that a correct understanding that China is now in the initial stage of socialism is a major prerequisite for building socialism with distinct Chinese characteristics and the basis on which the CPC is formulating all of its principles and policies. It is also the basis for our economic reforms. Moreover, the initial stage of socialism will take a fairly long period of time and last 100 years from its inception in the 1950's to its conclusion. This also shows that the reform process will take a very long time. Therefore, the cause of the various past misunderstandings of the reforms was an unclear perception of the issue of the initial stage of socialism. It seems that this issue arose not only in China, but also in certain Eastern

European countries. The unclear perception of the issue of the initial stage of socialism was caused not by China's actual conditions, but rather by the perennial leftist desire to rush into communism. The theory of the initial stage of socialism proposed by the 13th CPC Congress has now provided a basis on which to formulate fundamental reform principles.

2) The 13th CPC Congress clearly pointed out that the key item in the party's basic line on the initial stage of socialism is upholding the two basic points focused on building the economy. The two basic points of upholding the four basic principles and supporting the reforms and the opening up to the outside world are interrelated, interdependent, and united in the practice of building socialism with distinct Chinese characteristics. The 13th CPC Congress also pointed out that "Eliminating rigid ways of thinking will be the key task for a fairly long period of time."

3) The 13th CPC Congress eliminated certain things that had been attached to socialism and further established the standards for the productive forces. Such reforms as developing markets for the means of production, money, and labor, selling stocks and bonds, and using market regulation are all necessary for general socialized production and a commodity economy and are certainly not capitalist characteristics. They must be made to serve socialism. Only by allowing the private economy to exist and grow to a certain extent in the initial stage of socialism can the growth of the productive forces be speeded up. The standards for the productive forces were also proposed in 1984 but seldom upheld very well in practice. The 13th CPC Congress has now further clarified the standards for the productive forces and moreover, cleared away the things that had been attached to socialism. We think that this will be of key significance in speeding up and intensifying the reforms.

4) The 13th CPC Congress made the idea of a planned commodity economy more specific. The idea of a planned commodity economy based on public ownership that was proposed in 1984 was a significant development for Marxism. There were further new breakthroughs and developments on this issue in Zhao Ziyang's report to the 13th CPC Congress. He proposed a mechanism for smooth day-to-day economic operations in which "the state regulates markets and markets guide enterprises" and moreover, that a socialist planned commodity economy should be a system that integrates planning with market forces. This was a significant breakthrough. He went on to point out that planned regulation and market regulation are both simply ways and means. These ideas are the key theoretical basis on which the new system is being built.

We are now asking responsible comrades from all sectors and comrades in theoretical circles to join us in learning how to act in the spirit of the 13th CPC Congress and in

discussing and studying how to speed up and intensify the reforms. We are asking everyone to express their own opinions about this start that we have made.

12267/12913

GUANGMING RIBAO on Property Right Transfer

*HK110701 Beijing GUANGMING RIBAO in Chinese
23 Jan 88 p 3*

[Article by Ye Jinsheng (0673 6855 3932), Zhang Han-sheng (1728 3352 3932), and Bao Hongzhi (7637 4767 1807): "Observation and Study on How the Transfer of Property Right Is Tried Out in Wuhan"]

[Text] In the process in which enterprise reform is developing in depth, the practice of transferring the property right of enterprises, which is taken as an important method to enlivening enterprises, has already emerged.

Property Right Transfer: A Choice To Deepen Reform at Deep Levels

The target model for enterprise reform is to restructure a microeconomic mechanism that fits the commodity economy. On the basis of this idea, Wuhan has carried out theoretical and practical explorations, such as streamlining administration and instituting decentralization, reducing taxes and making tax concessions, implementing the contracted responsibility system, separating ownership and the power of management, and so on. These reforms to a certain extent have played a positive role. However, due to the fact that they only touch the transfer of the management right of enterprises, and the main body of the ownership of enterprise assets is not clearly represented, they encountered some puzzling problems: The contractor's management right is controlled by the responsible departments, and they will request assistance from responsible administrative departments. In a sense, administrative interference is thus intensified. Furthermore, enterprises are only responsible for profits but not for losses, short-term behavior is very common, and so on.

How should reform be continued and deepened on the basis of separation of ownership and the power of management?

The existing assets of enterprises should be checked and determined, and necessary internal transfer should be implemented. The independence of enterprise interests should be clarified and defined so that a new main body of interests can be formed. Enterprises may really become commodity producers that are independent in management and solely responsible for profits and losses. This is one of the reasons for Wuhan to explore enterprise property right transfer.

Since the implementation of reform, we have always tried to construct diversified ownership structures from the exterior of whole people-owned enterprises, and thus neglect and avoid the reform and readjustment of existing state-run enterprises. Practice has proved that it is neither necessary nor possible to safeguard the public ownership nature of small enterprises. On the one hand, a large number of small state-owned enterprises do not affect substantially the maintenance of China's nature of socialist public ownership. On the other hand, their level of productive forces does not fit the forms of ownership. Therefore, it is necessary to transfer with compensation this type of enterprise to individual or collective management to fit the development of the commodity economy. This is another reason for Wuhan to promote property right transfer.

Under the conditions of a commodity economy, we still have to work out a solution for enterprises that are running at a loss. In 1987, 15 percent of the industrial enterprises and nearly 30 percent of the collective enterprises of Wuhan's state budget incurred losses. A large number of small enterprises incurred losses or closed down in competition. Where is the way out for the closed-down enterprises? Is it a way in which their tax is exempted and tax concession should be made, and they are left running to the brink of extinction? Or is it a way in which they simply announce bankruptcy and pass on the responsibility to society? Obviously, these are not ideal choices. The key to solving the problem of incurring losses and going bankrupt is to proceed from the realities of the socialist system of China and to build an inherent operational mechanism that will not be financially responsible for all the losses of enterprises or simply pass on the responsibility to the society, but will give full play to and realize the latent value and energy of these enterprises. The ideal choice is to transfer with compensation or to sell these enterprises. This is the third reason for Wuhan to promote enterprise property right transfer.

An optimum combination of the essential means of production is a necessary precondition for developing a commodity economy. Merger of enterprises is an effective method to achieve rational allocation of resources. A large number of enterprises will rapidly develop and expand in severe competition, and unitary joint management can no longer meet their strong demand for expansion. They will thus begin to pay attention to the enterprises that are operating on the brink of bankruptcy and will also like to use their resources such as their premises, equipment, manpower, and so on. Therefore, promoting lateral transfer of enterprise property right has become a choice for Wuhan to develop commodity production at deep levels. This is the fourth reason for Wuhan to promote property right transfer.

Merger of Enterprises: The Main Form of Property Right Transfer

As property right transfer is the choice to deepen reform at deep levels, how should we guide and promote its realization? The method adopted by Wuhan: Paying

attention to the diversity of the forms of property right transfer, grasping the mainstay nature of property right transfer, and stressing exploration based on more than three levels.

The first level is to implement external transfer of property right. It is mainly to transfer the property right of small state-run and collective enterprises to private management through auction. Gantang Anchor Cable Factory in Huangpi County, Wuhan is a small collective enterprise incurring losses over a long period. The government of Gantang township set 126,000 yuan, which is the net value of the fixed assets of the factory, as the price for the property right, and the responsibility for various credits and debts of the factory as the condition for transfer, and sold this factory by public auction. Private enterprise owners such as Lu Shiming (7120 0013 2494) bought the property right and merged it with the casting factory originally managed by them. As a result, output value of 800,000 yuan was achieved in 6 months after the merger, nearly 100 percent more than that of the preceeding year.

The second level is to implement internal transfer of property right. It is mainly to transfer to enterprises the increased amount of assets achieved by the profits retained by them. This form of property right transfer is mainly experimentally implemented in joint-stock enterprises. The principles and methods in determining the transfer value are: To divide the total amount of the property of an enterprise into shares of property right owned by the enterprise and shares of property right owned by the state through checking the total amount of the enterprise property on the basis of last year's financial accounts. The portion of the state property right is mainly: The net asset value transferred to the fixed assets account over the years; the net value of the fixed assets formed by technological renovation financed by tax exemptions; the net value of the fixed assets formed before tax payment and after repayment of loans, and which is also formed by technological renovation and infrastructural construction financed by loans; and the state-assistance circulating funds.

The amount of property right determined and transferred to enterprises mainly is: The net asset value formed by enterprises' utilization of the depreciation and the production development fund since 1979; 45 percent of the net value of the fixed assets formed before tax and after repayment of loans, and which is also formed by renovation and infrastructural construction financed by loans; the circulating funds subsidized by the funds owned by the enterprise over the years. Wuhan set up a trial point at the Wuhan gourmet powder factory last year. The property right of the factory assets of some 4.3 million yuan, 42.4 percent of the total amount of the factory assets, was put under the enterprise. The realized profit of the enterprise is divided according to its share of the assets. Thus, the enterprise can have assets constraint mechanism and inherent motivation mechanism, and this can also in turn create conditions for the

enterprise to assume sole responsibility for profits and losses. The Wuhan shopping center adopted the system of internal transfer and division of property right, promoted joint-stock management system, and divided the amount of the enterprise's assets of 34 million yuan into state assets, local assets, and enterprise assets. The portion of local assets mainly includes the net value of the fixed assets formed by the city's financial investment and the investment of responsible departments. This development has thus taken an important step forward to smoothing property ownership relations.

The third level is to implement lateral transfer of property right. This mainly means realizing lateral transfer of enterprise property right through mergers of enterprises and promoting rational circulation of the essential means of production. Under the double attraction that enterprises incurring losses are striving for survival and expanding enterprises are striving for development, many enterprises in Wuhan have entered a potential market of mergers, and diversified merger forms have emerged: Merger in the form of purchase, acceptance, expansion, and affiliation. There are intra-industrial horizontal mergers, vertical mergers of related products, as well as inter-trade mix-mergers. Any form of merger will require the enterprise that is going to be taken over to give up its legal entity status and to transfer its property right, and the other party to input a large amount of funds and to be responsible for debts.

Among these three levels of property right transfer, merger of enterprises will become the main form in achieving property right transfer. The reasons are: External transfer is constrained by the purchasing power and cannot be achieved on a large-scale, and internal transfer is constrained by existing policies and cannot be developed in an all-round manner. Lateral transfer, however, does not have the problems associated with these two forms of property right transfer.

The introduction of the merger mechanism has provided new ideas for deepening enterprise reform. First, it provided new choices in perfecting industrial structure. The introduction of the merger mechanism enables enterprises to be transformed into tertiary industries. Enterprises that have been taken over not only extricate themselves from a predicament, but also provide room for strongly competitive enterprises in the same industry to develop. Moreover, the industrial structure of the same industry is also rationally readjusted through merger. Second, new choices are provided for rational circulation of the essential means of production. Under the influence of the merger mechanism, enterprises that have been eliminated can rapidly transfer their essential means of production; thus, developing enterprises can rapidly expand their scale. As a result, a good combination of the essential means of production is promoted. It is conceivable that large-scale merger of enterprises will bring strong vitality to the inactive state-owned assets and also introduce new energy to social economic life. Third, new choices are provided for forming intensive

management and large scale operation returns. The change from decentralized management to intensive management and the transformation from unitary return to large-scale operation returns are exactly what the reform pursues. The merger mechanism is beneficial to this pursuit. Fourth, it provides new choices to facilitate circulation of idle funds. The funds, taken as commodities, will objectively demand raising of the circulation frequency. A merger transforms a large amount of debts that cannot be repaid into debts that can be repaid. According to the statistics of the financial departments of Wuhan, various special banks had collected an amount of several ten million yuan of overdue loans and the credits and debts settled among enterprises in the process of merger. Fifth, new choices are provided for solving the social problems brought about by enterprises incurring loss. In severe competition, it is inevitable that enterprises incurring losses and closed-down enterprises will bring a series of social problems such as the employment problem of the staff and workers of enterprises that are closed down, who will be responsible for the wages of retired staff and workers of collective enterprises, and so on. A merger can solve these problems that might be passed on to society. In short, merger of enterprises meets the needs of socialized large-scale production and conforms with the characteristics of the initial stage of socialism.

Much Resistance: An Inevitable Objective Reality

The strong effects generated by implementing diversified property right transfer in Wuhan form a new impetus to the existing economic management structure and the traditional mainstay-form and concepts of the national economy. Therefore, it is inevitable that various forms of resistance will be encountered.

1. The recipients of the compensation for enterprise property right transfer are not clearly defined. Under the present situation in which the main body of enterprise property right is not clearly defined, there are uncertainties in the compensation for enterprise property right transfer. Theoretically speaking, the compensation for enterprise property right transfer should be collected by the state. However, this is difficult to achieve. If the compensation is collected by the departments in charge of enterprises, the nature of whole people ownership cannot be realized. If it is turned over to local financial departments, should it then be retained by local areas, turned over to the central government, or divided between them in proportion? There are still no definite and clear stipulations about this. Moreover, the departments in charge of enterprises that have been taken over require enterprises that have taken over others to be responsible for their debts and pay compensation. On the other hand, the latter consider that the enterprise property right is owned by the state and refuse to pay compensation other than the debts. These problems obstruct and delay realization of merger and sale and purchase of enterprises.

2. The property right of the increased assets newly created by merger of enterprises is not yet settled. Enterprises taking over others in general will use their retained profits to settle the debts of the enterprises taken over by them or to pay for the transfer of the property right. In the theoretical aspect, this portion of the property right is no longer owned by the state. This is because since the enterprises have paid the state compensation for the property right, the property right should thus belong to the enterprises. However, the real situation is that the state, through other departments, continues to own the property right of the enterprises. If things go on like this, enterprises will lose the inherent impetus to merger with or buy others.

3. The price for property right transfer with compensation is not reasonable. The present price for the property right of an enterprise is mainly the difference between the net value of the fixed assets and the credits of an enterprise on one side and its debts on the other. Moreover, the net value of the fixed assets is only book value, not real value. Without the key link of market estimate, the compensation for property right transfer is determined subjectively. At the same time, the existing price for the transfer of property right with compensation in general does not include the value of the compensation for the use of land and labor force. However, the right to use the land should be an important element of enterprise property right. The management departments of state-owned assets should appropriately design a scientific and rational method to calculate the compensation for the transfer of enterprise property right.

4. We lack a clear and definite stipulation for the scope of enterprise property transfer. Are enterprises closely related to people's livelihood allowed to be taken over? How can we maintain the business orientation of these enterprises after merger? In real life, this type of enterprise has the strongest consciousness to be taken over by large enterprises. For instance, Wuhan Hongshan bean products factory was taken over by the Zhongnan commercial building.

5. The transfer of property right is strongly resisted by traditional ideas. If the property right of state-run enterprises is transferred to private enterprise owners, the leaders and staff and workers of these enterprises could not maintain mental and emotional balance. Even when the property right of state-run enterprises is externally transferred to collectives, people would still not understand the meaning of the transfer. The Wuhan commerce commission had experimentally tried this type of transfer before. However, as all enterprise staff and workers opposed the method, it had to be withdrawn.

6. Property right transfer is interfered in by administrative means employed by responsible departments. The failure of the Wuye equipment manufacturing company to take over the Wuhan container factory resulted precisely from such administrative interference.

7. Property right transfer will bring employment problems to staff and workers and welfare problems to retired staff and workers. When property right is transferred internally and laterally, there will not be employment problems of staff and workers and wages or welfare problems of retired staff and workers. However, when enterprise property right is transferred externally, these problems will become very acute. Private enterprises buying the property right of others will recruit new workers according to their requirements, and some existing workers will be dismissed. Moreover, they will also not be responsible for the wage and welfare duties of the staff and workers of joint collectives. The present method is that employment of the staff and workers and the wages of the retired staff and workers are the responsibility of the departments in charge of enterprise auction and of local governments. However, once the number of this type of enterprise increases, the burden will become too heavy for the departments in charge of enterprises and the local governments to bear.

8. We lack an essential market environment for property right transfer. At present, merger of enterprises is still at a stage of spontaneity, and it lacks a market that can facilitate communication between the seller and buyer. Under such a situation, departments in charge of enterprises will often take up the unsuitable middle-man role to implement the practice of letting the rich lead the poor in an industry. The mergers thus resulting are not stable. The provincial cement machinery factory four times merged with other enterprises in the industry. Finally, a better partner was found by the bank, the intermediary,

Forming a Mechanism: A New Idea To Promote Property Right Transfer

An impetus mechanism of property right transfer should be constructed, and the enterprise property right structure should be restructured. The practice of reform made many people understand that in order to deepen the reform, a clear definition of enterprise property right relations should be grasped. We suggest that the key is to establish enterprise asset ownership. Property right transfer and merger and selling and buying of enterprises have provided a turning point for forming enterprise asset ownership. We should recognize that the assets formed by merger or purchase of enterprises are owned by the enterprises that have taken over or purchased others, and give enterprises the portion of the property right originally owned by them so that enterprise impetus mechanism and property restriction mechanism can be formed. Thus, property right owned by local areas and that owned by individual staff and worker can be determined. In some enterprises, property right owned by staff and workers is objectively allowed. Many enterprises that have achieved good economic returns have substantial reserves of staff and worker welfare funds and award funds. These reserves are input for the enterprises, and the value of the property right owned by staff and workers is thus increased. At the same time, staff and workers can be encouraged to invest in or subscribe

for shares from their enterprises. The results of property right determination and transfer will construct a new industrial structure and a new form of enterprise organization, and the existing state-run enterprises will be separately owned by joint-stock companies that have different property right mainstays. They will create conditions for spreading of risks, for enterprises to assume sole responsibility for profits and losses, for tightening budget constraints, for overcoming short-term behavior, and so on.

A restricting mechanism of property right transfer should be constructed, and management companies of state-owned assets should be established. The development of property right transfer leads to personalization and diversification of enterprise asset ownership. Objectively, it also demands establishing an independent management system of state-owned assets to carry out management duties of state-owned assets. On the one hand, it has the right to distribute the profits achieved by appreciation of the state-owned assets of enterprises. On the other hand, it has to be responsible for the management losses of enterprises—that is, various property right owners of the enterprises should share the losses according to the proportions of assets. This development will thus change the state from being responsible for unlimited enterprise liabilities to being responsible for limited enterprise liabilities.

A market mechanism of property right transfer should be constructed, and general affairs offices of enterprise property right transfer should be established. In order to promote development of enterprise property right transfer, a large number of enterprises incurring losses and closed-down enterprises should be put on the market to promote formation of a market mechanism. Under the present situation, financial departments can serve as middle-men, and several enterprise property right transfer service departments should be separately established in different areas. General affairs offices of enterprise property right transfer will appear as legal entities of non-profit making mass organizations and intermediary organizations of enterprise property right transfer. Of course, establishing enterprise general affair offices is only a transitional method. With the development of turning enterprise companies into joint-stock companies, the transfer of property right among enterprises will be completed by listing enterprise shares in the stock market.

A regulatory mechanism of property right transfer should be constructed, and corresponding policies and regulations should be stipulated. Appropriate principles of transfer should be defined first: The independence and the right to make their own decisions of enterprises should be respected, and normal buying and selling of enterprises should be protected; it should be made sure that property right of enterprises that are closely related to people's livelihood should not be transferred at will; and optimal combination of the essential means of

production should really be achieved. Second, corresponding management organizations should be established to take the whole situation into account and plan accordingly the general principle of enterprise merger, investigate and assess the two parties involved in property right transfer, and arbitrate disputes between the two parties. Third, corresponding policies and regulations should be formulated to ensure the legal rights and interests of the parties involved in enterprise property right transfer, so as to alleviate the social repercussions that will be brought about by property right transfer. Fourth, a strict investigation and assessing system should be adopted to ensure settlement of credits and debts after the enterprise property right is transferred, so that harming of the interests of a third party can be avoided.

Reasons Behind Short-term Orientation of Contract Enterprises

40060108 Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 25 Dec 87 p 4

[Article by Diao Xinshen [00431 2450 3947], Wang Zhigang [3769 1807 0474], and Yao Gang [1202 0474] of the Research Institute for the Reform of the Chinese Economic System: "Cursory Review of Causes Leading to Short-term Orientation of Contract Enterprises"]

[Text] People in general are inclined to put the responsibility for the short-term orientation of enterprises on those engaged in the operation, seldom taking the trouble to delve into the reasons which cause such enterprises to concern themselves with making short-term profits. It is our opinion that a major cause resulting in a misunderstanding of what is being done by the enterprises is the short-term operations of the parties issuing the contracts. These parties often wield a controlling influence over contractors because they can force them to accept their objectives as their own and, thus, exert a powerful influence over the parties assuming contract responsibilities. Furthermore, the parties issuing the contracts are usually the heads of the responsible government departments at various levels who are naturally anxious to achieve their short-term objectives before the expiration of their terms of office. Not being the owners of the assets, it is also difficult for them to know how to put the assets of the enterprises to the best use or to evaluate the rate of increase in the value of the assets of the enterprises. Thus, their main concern is for the enterprises to make short-term profits and to adopt their operational objectives as their own.

The solution of the problem calls for making changes in the way contracts are being awarded, the reform of the method of inviting tenders, the strengthening of open competition, the training of experts in the awarding of contracts, and the building up of a contingent of entrepreneurs. Of particular importance is the need to revise the method for the awarding of contracts and to give the matter serious study. In this connection, we would like to suggest the following lines of thinking:

First, a special unit should be established for the administration of state assets, to serve as the representative of their owners and to assume responsibility for the awarding of contracts. The specific functions of such a unit include: 1) the assumption of responsibility for inviting tenders and the selection and appointment of managers for the enterprises; 2) the assumption of responsibility for safeguarding the integrity and increase in the form of value of state assets mainly through proper auditing; 3) the assumption of responsibility for determining the amount of new investments and credit loans for the enterprises. According to this line of thinking, this unit is to serve as the guardian of the welfare of the public in inviting tenders, to assume responsibility for exercising supervision over financial and tax matters in dealing with state assets and to assume the role of a bank while making decisions relating to investments. The major defect of such a unit lies in the fact that, as representative of the owners of state assets and, thus, responsible for their appreciation in value, it cannot but exercise its power of intervention over the way the assets of the enterprises are put to use. Thus, such a unit is likely to evolve into a new administration organ that interferes with the operations of the enterprises and to nullify the original purpose for the introduction of reforms.

Second, when inviting contract bids, each enterprise should establish a temporary committee made up of representatives of the concerned government department, experts in the operations of the enterprises, and staff workers so that their respective interests are fully represented. This committee is to be disbanded once the contract bidding is done in order to prevent its interfering with the operations of the contractors. The major defect of such a committee lies in the fact that, in the process of awarding contracts, it is likely to accommodate the interests of the three parties concerned instead of trying to achieve the best possible result.

Third, a legal entity should serve as the coordinating organization for awarding contracts. Since such an organization must reflect, while not representing, the interests of the asset owners, it cannot be a department of the government. Assuming as it does the role as representative of the interest of society, such an organization serves as a neutral body between the government, on the one hand, and the enterprises, on the other. Its only permanent constituents consist of ordinary workers responsible for setting up a temporary committee for the awarding of contracts and not for the making of policies. Policymaking is the responsibility of professionals in the operations of the various enterprises in society (professional managers truly well versed in the operations of the enterprises who may be chief economists, accountants and engineers, or factory directors and general managers, and not necessarily college professors or scholars). Their main job is to make policy decisions relating to the operations of the enterprises. Their evaluation of the work of the coordinating committee for the awarding of contracts is based entirely on the quality and quantity of the work performed by the contractors, whether the

contracts are being awarded properly, and whether the operational capability of the successful contract bidders is accurately assessed. Since this committee has no other function or authority than the awarding of contracts, there is no possibility of its evolving into a new administration setup that might meddle with the affairs of other units. One major problem with this line of thinking is how to ensure its impartiality and sense of responsibility in the awarding of contracts

Different as they are, the three lines of thinking cited above also have their common points. First is the establishment of a contract-awarding committee independent of the responsible government departments. Second is the maximum possible participation of competent professionals in the awarding of contracts (the third line of thinking actually consists entirely of the awarding of contracts by professionals). Third is the public bidding for contracts on a completely competitive basis. Competition is very important for contract quality; unrestricted competition among contractors is the best premise on which to select contractors. There should also be competition among those responsible for the awarding of contracts to prevent them from exercising a stranglehold on their jobs. It is only thus that it is possible to promote and strengthen the sense of responsibility of those entrusted with the awarding of contracts and to ensure their competence as professionals.

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JINGJI GUANLI on Enterprise Joint-Stock System

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[Article by Mu Zujun [3664 4371 0193], Xu Yuefan [1776 6390 0416] and Yu Tao [0827 3447]: "Enterprise Joint-stock System of the Zigong City Steel Casting Plant"—edited by Pan Shucheng [3382 6615 3397]]

[Text] China's Zigong City Steel Casting Plant in Sichuan Province is a specialized hot process smelting and casting plant producing and handling various kinds of high and low alloy steel and carbon steel casting products. At present it has some 1,800 staff members and workers, being a major enterprise of the machine building industry. In 1987, it was sanctioned to enforce pilot reform of the "state-run large and medium-sized enterprise share-holding system."

I. Motive and Process of Enforcing the Enterprise Shareholding System

Actual practices in enterprise reform have revealed to us that over the past 8 years although the reform which has the main contents of solving the economic relations between the state and the enterprise (between the enterprise and the staff members and workers) and carrying out expanding power and ceding of interests has achieved notable results, the problem of invigorating the

enterprises has still not been basically solved. In the enterprises there still exists the contraction of interests of the three different levels of the whole-people total body, enterprise collective body, and the staff member and worker individuals with the enterprise unitary whole people ownership system and also the contradiction between the highly centralized and unified ownership right and management right formed in the traditional structure and the status of the enterprise as the producer and handler of commodities. This deprives the enterprise of the capability of self-transformation, self-accumulation, and self-development; it causes the enterprise to lack the innate motive power derived from the unification of the tripartite interests to jointly bear the responsibilities and risks, and also to lack the financial basis for operating autonomously and being solely responsible for its own profits and losses. As a result, after the progress of the reform has reached a certain stage and the enterprise's potential has been displayed to an appropriate extent, a new stage is called for to continue the advance. This is on the one hand an objective demand in the enterprise's economic development and on the other hand an objective which the enterprise will naturally seek in pursuing new vitality and higher targets. Following a comparison of these several lines of thought on deepening the reform, we believe that the "stock and share system" is a new model for reconstructing the structural relations of the enterprise ownership system. Through separating the government's administrative power from its property ownership right and separating property right and management right, the system enables the enterprise's property relations to become concrete and clarified, determines the allocation and management of the enterprise's assets and takes a step further to build the enterprise's material foundation and forms of operation and organization, thus making the enterprise truly become a carrier which "operates independently and is solely responsible for its own profits and losses" in developing the socialist commodity economy.

Our plant undertook joint-stock system reform at a time when there was a cold atmosphere for the stock and share system in society. Our selection of this pilot project in this stock and share system was in nature not only probing but also risk taking. Enterprise reform has no fixed pattern. To find a new path, even though it could turn out to be an error, would nevertheless be a lesson in deepening the reform. Hence, we were committed to this line of thought in deepening the reform and actively carried out this pilot project in the stock and share system.

The first part of work of the project consisted of fermentation and preparation. Our plant began the fermentation process in June 1986, and sent staff outside to do investigating work and prepare a procedural program. Inside the plant many discussion meetings were held studying the necessary features and the feasibility of the project, drafted the plan for a general framework of the

enterprise joint-stock system which, after repeated revisions and passing through the organizational procedure calling for the plant head's decision and also the democratic procedure, was submitted to the provincial people's government and the city people's government for approval. On 23 February 1987 approval was obtained and the plant became the pilot unit of the province's first enterprise to carry out the joint-stock system among its large and medium-sized enterprises under the system of ownership by the whole people. Subsequently other relevant documents and appendices were drafted, revised and formed including the "Regulations of the Joint-stock System of the Zigong Steel Casting Plant," the "Regulations of the Shareholders Representatives Congress," and "Methods of Issuance and Control of Share Certificates".

The second part of the work consisted of carrying out the organizational measures for pilot projects in the enterprise joint-stock system. 1) Frequently organizing study and propagation activities on special topics concerning "pilot projects in the enterprise joint-stock system," "hoping to establish a common basis of understanding and to amplify the contents of the program." 2) Under the leadership of the government's relevant department in charge, establishing a unit for converting the assets into shares and, according to the regulations of the policy governing share demarcation, completing the assets check and share conversion work on the state-owned shares and this plant's shares. 3) For the first time issuing share certificates internally in the enterprise, and carrying out the staff members' and workers' voluntary subscription to shares. 4) The state-owned assets management department designating a representative of state-owned shares. The enterprises, working according to the prescribed democratic management procedure and separately through the employees representatives congress and the individual shareholders among the employees, proposing and electing representatives of the enterprise shares and representatives of the individual shares of the employees. 5) Preparing for the convening the shareholders representatives congress. After discussing and adopting the "Articles," "Regulations," and "Management Methods of Issuance of Share Certificates" of the enterprise joint-stock system, electing the constituent members of the board of directors. The board of directors electing the board chairman and board vice chairmen. After the employees representatives congress had nominated to the board of directors the candidate for the position of plant head, the board of directors deciding on appointment of the plant head, examining and fixing the plant head's tenure targets responsibility system, and continuing the enforcement of the legally fixed plant head responsibility system. 6) The joint-stock system program and documents and appendices passed by the shareholders representatives congress being sent to the public notary's office for notarization to obtain legal effect.

II. Principle Contents and Method of Implementation of Enterprise Joint-Stock System

1. Clarification of the guiding thought and principle of enterprise shares: a) Ensuring the integrated character of the enterprise's state-owned assets. b) Acknowledging the assets formed by the enterprise's self accumulations to belong to the enterprise's ownership. c) Appropriately absorbing individual investments from a portion of the staff. In accordance with the different sources of funds, dividing the net value of the enterprise's entire assets into shares of different kinds and forming the pattern of an enterprise ownership system characterized by the common ownership by the three kinds of shares, namely, state-owned shares, enterprises collective shares and individual shares of staff members and workers. In the course of demarcating and clarifying the shares of the enterprise's assets, setting up enterprise shares is the key to enforcing the enterprise joint-stock system and is also a rather difficult problem. First, in policy the demarcation line must be made clear following which in checking the assets and demarcating the shares earnest efforts must be made not to be unfair either to the state or to the enterprise so that there is a just acknowledgement of the assets ownership relations of the enterprise.

2. Method of fixing and demarcating the shares of the enterprise's assets.

a) Checking and making a clear accounting of the assets and demarcating of state-owned shares and enterprise publicly owned shares.

An assets checking and share conversion committee is formed by the city government's economic committee and departments in charge of finance, taxation, banking and enterprises jointly with the enterprise, performing the tasks of making a clear accounting of the enterprise's properties, checking its assets, and converting them into shares.

The demarcation scope between state-owned shares and enterprise shares used 1980, when the enterprise began to enforce the profit-retention system, as the time boundary line. Thus, first, the net value of the enterprise's whole fixed assets before 1980 all belonged to state-owned shares. Second, beginning from 1980, the net value of the fixed assets formed by the state's special appropriations and capital construction appropriations belonged to state-owned shares, while that formed by the enterprise's after-tax profit retentions belonged to enterprise shares. Third, commencing from 1980, the net value of the enterprise's fixed assets formed from special loans or capital construction loans should be demarcated according to the ratio fixed for the current year between the profit delivery to the state and the profit retention for the enterprise and the corresponding portion derived from the profit delivery belonged to state-owned shares and the portion derived from the profit retention belonged to the enterprise shares. Fourth, beginning from 1980, the net value of fixed assets formed from the

depreciation funds of the various years should be demarcated according to the preceding year's ratio between state-owned shares and enterprise shares and the portion of the net value formed from the depreciation funds on the state assets belonged to state-owned shares while the portion formed from the depreciation funds on the assets of the enterprise belonged to the enterprise shares.

Fifth, beginning from 1980, the state's appropriation of circulating funds for the various years belonged to the state-owned shares whereas supplements to the circulating funds supplied by the enterprise from its own profit-retentions belonged to the enterprise shares.

b) Issuance of enterprise internal share certificates and setting up of staff members' and workers' individual shares.

The enterprise's first issue of share certificates was for 250,000 yuan and the face value of each share was 100 yuan. In the first issue, a discount of 20 percent was given on each share and the discount was compensated by funds from the welfare sinking funds subject to the enterprise's use and disposal. The shares were issued and could circulate only internally in the enterprise. Their sales were limited to the enterprise's registered staff members and workers each of whom was limited to subscribing for not more than 10 shares. Subscribing to the shares was on a voluntary basis. They were registered upon issuance and no share withdrawal was allowed, but internally in the enterprise by means of the share-transfer procedure, the shares may be transferred at a price or donated, inherited or mortgaged. Except the apprentice workers, learning students, and a small number incapable of subscribing or purchasing, in principle all of the staff members and workers have become shareholders.

Through the above-mentioned fixture of the shares, in 1986 the proportion in shares of the enterprise's assets was as follows: state-owned shares, 66.68 percent; enterprise shares, 31.43 percent; and staff members' and workers' individual shares, 1.89 percent. The ownership right of the state-owned share belongs to the state and the government's state-owned assets management department (at present its functions are temporarily attended to by the financial department) is responsible for their management. In the case of enterprise shares, the ownership right belongs to the enterprise and the enterprise is responsible for their management. The ownership right of staff members' and workers' individual shares belongs to the employee himself and he himself is responsible for their management.

3. Abiding by the spirit of separation of the "two powers," summarizing and taking into account the special features of a joint-stock enterprise, planning for a leadership system over the enterprises and setting up a corresponding organizational and management structure.

a) Setting up the shareholders representatives congress which exercises the ownership right and setting up the board of directors.

The shareholders representatives congress is the highest decisionmaking structure exercising the ownership right of the enterprise. The representatives are elected by the whole body of shareholders. The congress is an extraordinary organ and performs the following functions: First, receiving and examining the work reports of the board of directors; second, electing, appointing and dismissing member directors of the board of directors; third, deciding on the increase or decrease of the enterprise's share funds; and fourth, revising the articles of incorporation of the joint-stock enterprise. In general, the shareholders representatives congress meets once every year. The tenure of each session of the representatives is 5 years.

The board of directors is a standing organ of the shareholders representatives congress. Its constituent members are elected from among the shareholders and consists of nine members. Of them, two represent the state-owned shares, five the enterprise publicly owned shares and two the staff members' and workers' individual shares. The position of board chairman is held by the director holding the largest number of state-owned shares. The principal functions of the board of directors are: First, being responsible for convening the shareholders representatives congress and implementation of the resolutions of the congress; second, examining, discussing and adopting the enterprise's long-term and medium-term development plans, examining and fixing the plant head's tenure targets, and receiving and examining the plant head's yearly work report; third, appointing or dismissing the plant head through such means as election, solicitation, and designation; and so fourth, deciding on the distribution rate of share interest and share dividends. For the time being, the power composition of the board of directors is that in the board of directors the directors of state-owned shares hold 40 percent of the voting power while the directors of enterprise shares and those of staff members' and workers' individual shares respectively hold 30 percent of the voting power. Restrictions imposed by the board of directors on the plant head's conduct and operations are confined to those called for by group decisions of the board. At ordinary times the board cannot directly intervene in the production and operation activities within the plant head's sphere of power.

b) Enforcing the plant head responsibility system and enabling the plant head to independently exercise the enterprise's managing power.

The plant head is the enterprise's highest entrepreneur, represents its legal entity, and is entrusted by the board of directors with the responsibility of the enterprise's entire assets. He can solely decide on, and is wholly responsible for, the enterprise's entire production and business activities. Regarding the status, role and limits

of functions and power of the plant head, staff members and workers representatives congress, and the party organs in the enterprise, the spirit observed and carried out is that embodied in the "Three Sets of Regulations" and "Supplementary Notices" concerning industrial enterprises owned by the whole people promulgated by the CPC Central Committee and the State Council.

The enterprise's administrative leadership structure is composed of the plant head as the leadership supported by the chief economist, chief engineer, chief accountant, chief production controller, chief ideological and political work specialist, and production administrative assistant. In the structure there are "4 offices and 12 departments," as follows: plant's general office, plant head's decision-making office, supervisory office, enterprise management office, operations department, personnel management department, materials supply department, economic development department, technological department, quality control department, technical equipment transformation department, production management department, equipment motive power department, livelihood service department, comprehensive administration department and ideological and political work department.

The party group organs streamline the structure and effect changes and transformation of functions.

4. Principle governing the distribution of benefits of joint-stock enterprises: First, consideration must be given to ensuring the safety and stability of the state's tax receipts and to the adoption of the method of after-tax retention of profit dividends; at the same consideration should be given to the new condition of taxes and profits flowing in separate channels and to enforcing the 2-level distributio system between the state and the enterprise and between the enterprise and staff members and workers. The state takes the benefits in two forms, namely, delivery of tax funds by the enterprise and, through the state-owned shares, participating in the enterprise's after-tax retention of profit dividends. As for the enterprise's staff members and workers they depend mainly on distribution according to work supplemented by the distribution form of receiving share dividends.

a) Readjusting the tax rates of the enterprise

Under the precondition of ensuring that the state's financial revenues will not be reduced and due to the state-owned shares participating in the enterprise's dividends, the income tax rate on the portion of the enterprise's base figure profits (3 years' average from 1984 to 1986) is fixed at 40 percent. On the portion of profits in excess of the base figure the income tax rate is 30 percent. Payment of the regulation tax is exempted. Sales charges and local taxes should be delivered as originally prescribed.

b) Share interest and share dividends

State-owned shares and enterprise shares do not receive any interest but participate in the share dividends. In participating in the enterprise's after-tax profit retention dividends, after payment of the income tax, state-owned shares, as priority shares, receive on the total amount of shares a fixed percentage (following preliminary estimates now temporarily fixed at 6 percent). For the sake of ensuring payment to the state of the legally prescribed taxes, in subsequent profit dividends if the enterprise's performance results should fluctuate below a profit rate of 6 percent, the state-owned shares will still claim a dividend of 6 percent and any insufficiency should be made up from the enterprise's profit retention funds. In the event 6 percent is exceeded, then following approval by the finance department, the excess may be reinvested in the enterprise for use on production development and a corresponding increase will be made in the amount of the state-owned shares. In principle, profit dividends on the enterprise shares should be used on developing the enterprise's production.

Regarding the staff members' and workers' individual shares, for the time being the method adopted is paying both interest and profit dividends thereon. The interest rate is temporarily fixed at 10 percent and is charged to the cost of production. Share dividends and share interest combined should not exceed 18 percent of the share funds and, in addition, are in law subjected to payment of the individual's income regulation tax. Dividends and interest on staff members' and workers' individual shares are paid each year in one lump sum to the employee himself. In addition, regarding the benefits received by the staff members and workers from distribution according to work, enforcement of the method of linking the gross amount of the salaries and wages of the staff with the enterprise's delivery of taxes and profits is continued. The enterprise can autonomously decide on the standard, form, and method of distributing the salaries, wages, and bonuses of the staff members and workers.

On all sides the state, the enterprise, and the staff members and workers, in their capacity as shareholders, enforce the principle of sharing the benefits and the risks. If the enterprise incurs a loss, in compensation the enterprise's reserve funds will be made use of first and the shortfall will be borne per share. In the event of the enterprise's bankruptcy, the liquidation of the enterprise's creditor's rights, indebtedness, and the assets of the shareholders will be dealt with in accordance with the relevant regulations of the state's bankruptcy law.

5. Based on the principle of separation of the state's ownership right and management right and the operation method and organization form of the enterprise operating autonomously and being solely responsible for its own profits and losses, fixing anew the relations between the state and the enterprise.

Except for collecting taxes from the enterprise and taking part in the profit dividends, thus manifesting the state's political power and the economic benefits of state-owned

assets and, through the board of directors, definitely ensuring the integrated state, safety and increase in value of the state-owned assets, the state enforces indirect control and trade control over the enterprises.

a) The enterprise accepts the state's supervisory overseeing, the financial, taxation, and industrial, commercial and administrative control departments' supervision and inspection, and their proposals on reforming and improving the enterprise's work.

b) Starting from the day of enforcement of the joint-stock system, the administrative and subordinate relations of the enterprise with the original department in charge are terminated and the enterprise accepts the guidance of the industrial and trade control departments.

c) After enforcement of the joint-stock system, the enterprise's original channels in planning, materials and funds remain in principle temporarily unchanged and from now on they will follow the deepening reform of the state's economic structure and be gradually improved.

III. Changes and Considerations after Enforcement of the Enterprise Joint-stock System

After the initial practices in pilot projects of the joint-stock system, our plant has experienced the following changes:

1. Formation of an ownership system of a pluralistic structural form featuring joint ownership by three parties, namely shares owned separately by the state, enterprise, and individual staff members and workers. Through the forms of demarcating shares, conversion of shares, and subscription to shares and taking the socialist public ownership system as the principal body and the state-owned system as main guidance, it merges into one body the assets from many sides including the state, the collective, and individuals, clarifies and makes the financial ownership concrete and overrides the original singular, abstract and fixed pattern of the whole people ownership system. It provides workable conditions and an assets basis for making it possible for the enterprise to carry out truly independent operations and be solely responsible for its own profits and losses. Enforcement of this type of joint-stock ownership system finds a new road to the organic unification, at an even deeper level, of the interests and objectives of the three sides, arousing the enthusiasm of the enterprises and of the staff members and workers, increasing the vitality, exploring into, practising, and deepening the reform of the enterprises.

2. Establishment of new economic relations between the state and the enterprise. The state and the enterprise have changed their original tax-interest relations to tax-dividends relations. Taxes are paid according to law while share dividends are declared. This first safeguards the state taxes and following the development of the enterprise, the state-owned shares will receive in priority

an increase in dividends, although it must be mentioned that conversely in the event that the enterprise has suffered a setback in benefits or incurred a loss, the dividends on the state-owned shares will definitely be affected. Following the increase in the enterprise's economic benefits and the definite recognition of the enterprise's self-accumulations, the enterprise shares will correspondingly grow and will steadily increase the enterprise's strength in development. This establishes a new relationship of "being mutually related in rise and fall and jointly seeking development" between the enterprise and the state separately in the assets and in management. It breaks free from the unnecessary administrative direct intervention. The greater the enterprise's growth, the stronger is its vitality and the greater the benefits to the state.

3. Establishing a new internal distribution system in the enterprise. The joint stock system carried out in our plant still firmly insists on the enterprise's economic benefits and its good or bad performance as the basis for the fluctuations in internal distribution and on the principle of "distribution according to work and more work more pay." Last year, simultaneously with the implementation of the system of contract responsibility calling for the entire staff to bear the operation risks, the distribution form of share interest and share dividends in stock and share operations has begun to infiltrate into the enterprise. Thus, a compound type of distribution system was formed in which distribution according to work was the main body supplemented by distribution according to shares. In one way or another this has further aroused the enthusiasm of the staff members and workers.

4. Establishment of a new enterprise management structure. Aside from implementing the plant head responsibility system under the leadership of the shareholders representatives congress and the board of directors and terminating the original administrative subordinate relations which has helped in realising the separation of government from enterprise functions and separation of the "two powers," at the same time a new structure of the double-track operation of the shareholders representatives congress and employees representatives congress was formed. This has enabled the combination of the owners and the workers at a deeper level internally in the enterprise and rendered the staff members' and workers' political and economic status, in regard to responsibility, power, and interest and as related to the state, the enterprise, and the individual employee, more closely united into one body. This has more directly and concretely manifested the unanimity in status and role characterised by "politically being the master and economically being the shareholder." The political structure of the enterprises has also evolved a corresponding change, which is all the more beneficial to deepening the reform of the enterprise.

5. Further perfection of the enterprise's motive force and restrictive mechanism. The special feature of joint-stock

operation is causing the enterprise's investment principal body to change position. It reflects the enterprise entrepreneur and producer being more concerned with collective operations. It not only watches closely the realistic nature of the enterprise's conduct but also stresses strengthening the development of the enterprise's stamina. It strengthens the movement of the enterprise's operation mechanism toward having superior motive force and force of pressure and this is beneficial to basically curing the hunger for investment and irrational consumption expansion.

6. Changes in the staff members' concept and in their relations with other people. After enforcement of the joint-stock system, the staff members and workers made their investments and subscribed to the shares. Economically they became interested in the enterprise and were concerned with the business condition of the enterprise. This stirred up their sense of responsibility as masters of the house, strengthened their awareness of "sharing the same fate as the enterprise," and also strengthened their concept in stock and share operations and their concept of the staff members and workers being the principal body. In the recognition of the owners' concrete relations, the enthusiasm of the entrepreneur and the producers was further enhanced. As for the changes in the relations among people, they were principally: First, before enforcement of the joint-stock system, the enterprise's leadership emphasized their status as "administrative officials" designated by the higher level but now they have become enterprise entrepreneurs directly entrusted by the board of directors formed by the shareholders who include the state, the enterprise and the staff members and workers, are responsible to the board of directors, and must serve the shareholders, thus manifesting the harmonious relations of "the staff members and workers being the masters and the entrepreneurs managing the house." Second, before enforcement of the joint-stock system, the relations of joint labor were most apparent between the staff members and workers and the whole staff was responsible to the state, the "big boss." Among the individuals there were no responsible relationships concerning the loss or gain in the assets of the enterprise. Now, the size of the benefits of the work and labor of each and every person has a direct effect on other people's economic interests. Between the staff members and workers there exists a mutually dependent relationship in which "both profit and loss concern them, they must jointly bear the risks, and, being in the same boat, must help each other."

In short, the above-mentioned changes may be summarized into the following five phrases: "Having a share in the assets, possessing the power of management, jointly bearing the burden, benefits to all three parties, and a hopeful future." In the first half year of 1987, for a period our plant suffered from a shortage of electric power, but the gross volume of output still surpassed the same period of the preceding year by 8.7 percent, an increase of 4.4 percent over the same period in 1985 which was historically the best year. Output of the major

product alloy steel increased by 31.84 percent over the same period of the preceding year. Consumption of energy and materials was generally lower than that in the preceding year. Realized profits increased by 31 percent over the same period of the preceding year, reaching the best level in history.

Our plant's enforcement of the joint-stock system is still the first step in the pilot project. Only a short period of time has passed and there are many flaws. Moreover, there are still certain problems requiring further probing. Problems such as: Is there any need to impose a fixed limit the development of the enterprise shares? Is it possible to make the reinvestment of the dividends of the state-owned shares more flexible and more positive? How should we handle suitably the problem of the growth of the staff members' and workers' shares? Then there is the problem that both outside and inside the enterprise the management structure of a joint-stock enterprise and the existing "three regulations" are not exactly harmonious or coordinated with each other and not suited to each other. And the problem that shares must be actively attractive to draw investments whereas their risky nature must be made clear (particularly in the case of the staff members' and workers' individual shares, the question is whether to pay both interest and dividends or to leave out the interest but to pay the dividends only). Enterprise shares receive their dividends from the enterprise's after-tax profit retentions. Hence, when acknowledging and encouraging the value-increment of enterprise shares through the enterprise making self-accumulations, in what way can we, in the distribution relations, factually manifest the basic interest in the growth of the enterprise's assets and is it possible thereby to ultimately shift the position of the investment principal so as to realize the activism of self-transformation and self-development? In the event of share infiltrations between newly established enterprises, or when the relevant environment and conditions for the outward issuance and circulations of shares, setting up of relevant standards or regulations, economic legislations and supervision and control, and sundry happenings of a policy nature—when these affect the enterprise's operation activities and economic benefits, the question of how to make due adjustment and to coordinate with the macro economic control may arise. Answers to these questions and problems will have to be sought in the next step in the actual practices so as to improve and perfect the stock and share system.

PROVINCIAL

Hunan Announces 1987 Economic Statistics
*HK150157 Changsha Hunan Provincial Service in
Mandarin 0100 GMT 15 Mar 88*

[Excerpts] The Hunan Provincial People's Government held its first press briefing of 1988 yesterday to announce the statistics for the province's economic and social

development in 1987. (Lu Huiyun), secretary general of the provincial government, presided. (Zhang Shaoshun), director of the provincial statistics bureau, announced the province's statistics.

(Zhang Shaoshun) said: The province's gross social output value in 1987 was 87,824 million yuan, a rise of 12.2 percent over 1986. Gross domestic product and national income showed respective rises of 9 percent and 9.2 percent. The rural economy was even more lively. Total agricultural output value was 25,339 million yuan, a rise of 3.3 percent over 1986. Industrial output rose steadily, and output value was 45,674 million yuan, a rise of 16.9 percent. Industry has recorded double-digit growth rates for 5 successive years. The province's export volume was \$619 million, a rise of 23.1 percent.

(Zhang Shaoshun) also pointed out a number of problems in the province's economic development in 1987. The main ones were: The contradiction between total social supply and demand was still conspicuous; there were shortages of a number of commodities, especially major non-staple foodstuffs; prices rose too much, with a relatively big affect on living standards; due to reduced investment in agriculture, the reserve strength of agricultural production was still insufficient, and so on.

Measures To Stimulate Jiangsu's Urban Economy
40060112 Nanjing XINHUA RIBAO in Chinese
30 Nov 87 p 2

[Article by Xue Jinzheng [5641 6855 2419], Zhang Feng [1728 6912], and Tang Jian [0781 1696]: "Measures To Stimulate Jiangsu's Urban Economy"]

[Text] Jiangsu is one of China's provinces that has a fairly well-developed urban economy. Since the 3d Plenum of the 11th CPC Central Committee, Jiangsu Province has carried out the general policies of reform and opening to the outside world, quickly developing and gradually improving its urban economy.

Along with changes in international and domestic economic conditions, the urban economy will play an increasingly prominent role. Jiangsu's economy is now facing severe challenges. The rise of the new technological revolution throughout the world has gradually reduced the advantages in manpower and primary resources of developing countries and aggravated the unfavorable international trade status of countries that rely on the export of primary products. Changes in domestic consumption and modification of the prices of basic industrial products have eliminated Jiangsu's opportunities to develop processing industries by using low domestic market expansion and cheap raw and processed materials, replacing them with increasingly sharper competition and gradually shrinking markets. The intensification of rural reforms and the rapid increase in the number of farm workers and the percentage of marketable products have caused surplus labor to

turn increasingly toward secondary and tertiary industries and speeded up the pace of urbanization. The coexistence of a few developing industries and many traditional ones had intensified the contradictions in the dual economic structure. All of these changes show that Jiangsu has entered a new stage of economic growth that is focused on replacing resources and restructuring, and make pressing demands on us to seize opportunities, change our strategies, and reestablish our advantages. In view of the important position of the urban economy in Jiangsu's part of the national economy, when considering past strategies and proposing new ones based on these new conditions, we must attach great importance to the decisive role of the urban economy in effecting strategic changes in Jiangsu and rely on it to raise the economy throughout Jiangsu to a new level.

I. Key Issues Now Facing Jiangsu's Urban Economy

Focused on the need to build an open, multifunctional, socialized, and modern economic center, and starting with reforming and restructuring its economy, Jiangsu Province has actively studied ways to stimulate its urban economy in the past few years. Through having cities manage counties, putting national and provincial enterprises and secondary commercial centers under lower administration levels, and appropriately expanding urban management jurisdiction, Jiangsu has eliminated its urban economy's uncoordinated internal links and gradually developed the central role of its cities. Through devolving enterprise decisionmaking power to lower administrative levels, establishing markets, and improving the government's economic functions, Jiangsu has broken away from the closed system and improved its cities' internal and external opening functions. Based on market changes and available resources, Jiangsu has paid attention to restructuring its economy and helping its urban economy to change from extensive to intensive operations. Through restructuring and reform, vitality has begun to appear in Jiangsu's urban economy. But in contrast to the need to develop a planned commodity economy and as compared to the rural economy, Jiangsu's urban economy is still far from being vigorous enough and is still faced with the following key issues:

1. An Urban Economic Structure Favorable to the Rational Disposition of Resources Has Not Yet Evolved

Industrial growth is uneven. Basic industries that use mostly electric power and raw and processed materials lag behind processing industries, and serious shortages occur. Infrastructures lagging behind construction of direct production, communications, telecommunications, commercial, and banking facilities is unsuited to the needs of urban and rural economic growth. Technology is becoming more low-tech. It is estimated that labor-intensive, capital-intensive, and technology-intensive industries in Jiangsu's cities stand in a proportion of 4.4:4.6:1, and that most industries are low-tech. Enterprises are too loosely organized. A system of coordination among specialized departments that takes large- and

medium-sized enterprises as its key factor has not yet evolved, while small but complete and small, loosely organized enterprises are still quite prevalent. The product mix is becoming more primary. There are too few high-precision processed products and too many primary and semifinished ones. Regional division of labor is undeveloped. Cities are unable to transform extensive trades and introduce intensive ones. The industrial structures of cities and the urban and rural industrial structures are tending to become the same. Urban economic growth between northern and southern Jiangsu is very uneven. The economic structure is the fundamental framework of the national economy. The rationality of this structure, and the technological advancement of the industrial structure in particular, will have a major effect on the stable, rapid, and successful growth of the urban economy.

2. An Urban Economic Management System Suited to the Needs of a Planned Commodity Economy Has Not Yet Been Established

Enterprises have not yet fully become economic entities that assume sole responsibility for their profits or losses, have decisionmaking power in operations, and have truly broken away from their status as subsidiaries of administrative organizations. Enterprise management is still imperfect and not sensitive enough to market supply and demand and economic indicators. Enterprises keep too few profits and have too heavy social responsibilities. The market system is being built too slowly and the structure based on the administrative system, administrative management, and assignment of key production factors has not been entirely eliminated. In addition, shortages of commodities have made it hard to set up large, wholesale commodities markets and limited the size of means-of-production markets. Many difficulties have also been encountered in developing technology, labor, money, and real estate markets and in putting prices in order. Urban regulation and control is imperfect. Departmental and regional separation still exist. This is shown mainly in that poorly run planning and finance systems and inadequate urban jurisdiction in the use of economic levers have limited the advantages of urban control of counties and development of the central role of cities. Fairly prominent issues still exist, such as too slow change in urban government functions, too many organizations and administrative levels, overstaffing, and inefficiency. These are the key links in urban production relations that are blocking the growth of the productive forces. In particular, centralized and open markets are growing too slowly and causing unequal economic environments and competitive conditions for enterprises, a lack of inner mechanisms to coordinate favorable production factors, and a poor basis on which to change government functions. This is one of the key factors affecting stimulation of the urban economy.

II. Measures To Stimulate Jiangsu's Urban Economy

Based on the general policies of reform and opening to the outside world, further stimulation of Jiangsu's urban economy will require coordinating these policies with

Jiangsu's actual urban economic conditions, focusing on the growth of a planned commodity economy, integrating reform with growth, fully developing the leading role of cities in the national economy and their functions as economic centers, and making marked improvement in urban productive forces and overall economic results. The specific criteria to judge the vigor of the urban economy are the extent of its economic opening to the outside world, the development of its technology, the rationality of its economic structure, the completeness of its infrastructure, and the strength of its urban regulation and control functions. Present work priorities are developing and export-oriented economy, strengthening the guiding role of S&T, improving the industrial structure, and perfecting smooth day-to-day urban economic operations.

1. Actively Developing and Export-Oriented Economic

Jiangsu Province's large- and medium-sized cities should play a bolder role in the world economy, actively develop international trade and division of labor, and improve their economic standing. They should vigorously strive to earn more foreign exchange from exports, use more foreign capital, and import more foreign technology. They should ensure imports with exports, foster exports with imports, and coordinate their foreign trade. A good cycle of "earning foreign exchange from exports, importing technology, expanding production, and earning more foreign exchange from exports" should be realized to enable the urban economy to grow steadily. Thus, a better export production system should be built and a multilevel system including export production groups, specialized export production factories and shops, and export production bases for agricultural sideline products should be developed. The export product mix and industrial structure should be improved and the quality of export commodities should be raised steadily. Advanced S&T should be used extensively to equip all industrial sectors and imported technology should be well digested and absorbed. A foreign trade management system should be set up and perfected to enable urban foreign trade enterprises and large enterprises or enterprise groups that earn foreign exchange mainly from exports to gradually assume direct control of all their foreign trade business. The investment environment should be steadily improved and all service systems should be gradually perfected. Attention should be paid to developing and using personnel and striving to improve management and administrative standards. From now on, urban earning of foreign exchange from exports should grow faster than the national economy and, by the end of the Seventh Five-Year Plan, urban foreign trade procurement should account for about 20 percent of the GVIAO. Moreover, marked improvements should be seen in the level of technology and the technological structure of urban industry.

2. Strengthening of the Guiding Role of S&T

Along with increasingly sharper international market competition, developing an export-oriented economy will require mastering the key link of technological progress, speeding up the process of transforming S&T achievements into technology and applying them to industry, and gradually and appropriately making the national economy more high-tech. Thus, S&T policies must be revised. Technological development must be stressed in both basic and development research, and importing of technology must be stressed in technological development. Development and importing must both be in keeping with industrial policies and support the transformation of traditional industries and the growth of developing ones. Investment policies must be revised. At least 60 percent of investment must be for technological progress. Scientific research management must be reformed to change development research units into integrated economic and technical entities that are responsible for their own profits and losses. Measures must be taken to reduce or exempt income taxes for experimental S&T products and encourage scientists and technicians to take sparetime jobs, and the initiative of research departments and scientists and technicians to develop and popularize their S&T achievements must be mobilized. Technological transformation must be listed as a major responsibility in the enterprise contract output-related responsibility system. Some depreciation funds, production development funds, and technical results income of responsible departments that was formerly turned over to the higher authorities should be transformed into enterprise technological development funds and used specially for technological transformation. These policies and measures should be adopted to raise the technological progress factor in urban economic growth from the present 35 percent to more than 50 percent as quickly as possible.

3. Improving the Industrial Structure

Improving the industrial structure is a strategic measure that is closely linked to developing an export-oriented economy and promoting technological progress. The arrangement of industrial priorities according to agriculture, light industry, and heavy industry must be changed and an industrial policy that integrates development, transformation, and change must be carried out. Developing and high-tech industries, such as microelectronics, computer software, fiber optics, new materials, energy conservation technology, and bioengineering, should be developed. Traditional industries, such as the textile, metallurgical, engineering, and chemical industries, should be transformed, and computers and other new technologies should be used to reequip and transform old facilities and technologies, improve production function, and increase value. Extensive industries that produce products which are high in energy consumption, popular goods of dependable quality, and products that consume a lot of raw and processed materials in particular should be transformed. Priorities for the near and

medium future are improving the technology and quality of traditional industries and using their increased earning power and accumulated funds to buy natural and S&T resources that are in short supply; supporting the development of new industries and helping them to reach advanced world standards in the mid- and long term; and helping the urban economy to change from relying mainly on traditional industries to laying equal stress on both traditional and developing industries, and to rely mainly on developing industries and lay a foundation for high-tech cities of the distant future.

4. Perfecting Smooth Day-to-Day Urban Economic Operations

This is the key to ensuring the successful application of an urban economic growth strategy. The goal of perfecting smooth day-to-day urban economic operations is to establish a coordinated urban economic management system in which markets are guided by plans, enterprise actions are guided by markets, and the urban and rural economies are integrated. The key way to realize this goal will be to continue to spur the urban economy to become more commercial and money oriented and to continue to expand and perfect the market system. The priority is to build better markets for commodities and money. In order to expand commodities markets, it will be necessary to reform distribution and price policies for the means of production and put on the market commodities that are still subject to piecemeal distribution. Distinctions should be made between key and ordinary commodities and between those that are in great demand and those that are not, and different management methods and price policies should be used for each. For key commodities and those that are in great demand, markets can only be formed under state leadership and management in which the state sets or restricts prices. Commodities that are not in great demand can be freely marketed according to negotiated prices. In order to build better money markets, it will be necessary to continue to reform the system of credit-fund distribution from above and make special banks more like enterprises. Diversified banking means and methods should be developed vigorously, lateral fund circulation should be speed up, and money should be used more efficiently. S&T achievements, labor, construction, and tertiary industries should be commercialized faster and markets should be set up to sell their products. When carrying out various provision to devolve authority to lower administrative levels, emphasis should be placed on intensifying reform within enterprises and, through practicing such forms as the output-related contract management responsibility system, an enterprise management mechanism that integrates responsibility, rights, and interests should be set up and perfected. The economic functions of urban governments must be changed and urban regulation and control functions must be improved. Urban governments must truly transfer their economic work priority to formulating regional industrial policies and plans and eliminate commodity economy guesswork with socialist planning. An economic regulation system and local economic laws and regulations that ensure the

implementation of regional economic plans must be formulated, and market activities must be guided and standardized. Thus, urban jurisdiction to use different prices, interest rates, and tax rates must be suitably expanded, and cities must be allowed to formulate some of their own local economic laws and regulations. Along with changing their functions, urban governments must speed up their administrative reforms and improve their management efficiency. Provincial economic management departments should continue to simplify their administration and devolve authority to lower administrative levels, truly giving cities the authority that they deserve and fully developing their key role.

12267/06662

FINANCE, BANKING

CPCCC Urges Guarantees for Private Economy, Land Rights

HK070711 Beijing CHINA DAILY in English
7 Mar 88 p 1

[By Staff Reporter Dong Lisheng]

[Text] The ruling Communist Party of China has suggested amending the country's Constitution to give legal standing to the private economy and the transfer of land-use rights.

The CPC Central Committee made these suggestions last month to the Standing Committee of the National People's Congress, and they have been put on the agenda of the 25th meeting of the NPC Standing Committee, which opened on Saturday in Beijing.

The Central Committee's recommendations grew out of practical experience gained in the economic reforms and the development of the open policy over the past few years. The committee asked the NPC Standing Committee to consider them and submit them to the first plenary session of the Seventh National People's Congress, which convenes on March 25.

The Central Committee suggested that a clause on the private economy be added to Article 11 of the Constitution, which was adopted in 1982.

The suggested clause reads: "The State permits privately owned economic entities to exist and develop within the limits prescribed by the law. The private economy is a complement to the socialist public economy. The State protects the legitimate rights and interests of the private economy while providing the private sector with guidance, supervision and administrative regulation."

The original Article 11 has similar specifications for the individual economy. According to an official at the State Administration for Industry and Commerce, the individual economy refers to small businesses run by an individual or a family. They usually do not hire workers or they hire fewer than eight.

The private economy is larger in scale and stronger than the individual economy. Privately owned factories or shops hire more than eight workers. They first appeared in China in 19891 and developed quickly in 1984 and 1985. By last year they numbered about 225,000.

The Central Committee also suggested revising Clause 4 of Article 10, which reads, "no organizations or individuals may appropriate, buy, sell or lease land, or unlawfully transfer land in other ways."

It suggested changing that to read: "No organizations or individuals may appropriate, buy or sell land, or unlawfully transfer land in other ways. The right of land use can be transferred in accordance with the law."

The transfer of land-use rights means the right to use State-owned land can be given to foreign individuals or companies as well as Chinese. They may in turn transfer the right to others and sell buildings on the land. The duration of such a right is usually 20 to 50 years.

A proposed revision of China's law on Sino-foreign co-operative enterprises would give them the right to tax reduction and exemption. These would be no interference in the management right of such enterprises.

They shall set up a board of directors or a joint executive body to make decisions on major issues according to contracts or company constitutions. The board of directors or joint executive body shall have the power to appoint or hire a general manager to take charge of the daily operation of the enterprise, the NPC Standing Committee was told on Saturday.

Communications Bank To Expand Operations

OW140141 Beijing XINHUA in English
1122 GMT 13 Mar 88

[Text] Guangzhou, March 12 (XINHUA)—The Bank of Communications will find new ways to expand its business, said Li Xiangrui, general manager of the bank, today.

These new ways were described as:

— cooperating with enterprises by linking finance with production. As the first step, the bank has signed an agreement with the state machine-building industry commission to help the industry commercialize research achievements, and issue stocks and bonds on behalf of its enterprises, among others;

— expanding business with foreign banking organizations to induce more funds to promote China's foreign market-oriented economy;

— enlarging its services to include insurance and real estate businesses; and

— setting up new branches in economically-underdeveloped northwest China to help enterprises there.

'Visa' Travellers Checks To Be Available From Communications Bank

*HK071546 Hong Kong AFP in English
1412 GMT 7 Mar 88*

[Text] Hong Kong, March 7 (AFP)—The Shanghai-based Bank of Communications is to start issuing Visa travellers cheques this year, joining 36 other issuers worldwide, Visa International said here Monday.

"Visa International has completed a comprehensive training and orientation seminar for the bank in Shanghai to prepare the bank for the mid-1988 launch of its U.S. dollar travellers cheques," a statement said.

The Bank of Communications will be the first Chinese bank to issue Visa travellers cheques although two London-based foreign banks, Barclays and Bank of Credit and Commerce, already sell them through branches in China, it said.

SMALL-SCALE ENTERPRISES

Township Enterprises Expand Foreign Trade

*40060129 Beijing GUOJI MAOYI WENTI
[INTERNATIONAL TRADE JOURNAL] in Chinese
No 6, 1987, pp 16-20*

[Article by Xu Yu [6079 3558]: "Township Enterprises and Foreign Trade."]

[Excerpts]

I

Statistics show that township enterprises in this country have increased 11.11 fold in 9 years, from 1.1 million in 1976 to 12.22 million in 1985. In 1985, the total output value of these enterprises topped 272.8 billion yuan, 17 percent of society's total output value, and township industries accounted for 183.1 billion yuan, or 19 percent of the nation's GIOV. Township enterprises supplied 53 percent of the nation's total production of building materials, 28.9 percent of the raw coal, and 50 percent of the garments manufactured in 1985. Half of the township enterprises' engineering industry is devoted to processing and manufacturing parts and components and auxiliary equipment for the large state-run industries. Between 1979 and 1984, township enterprises paid more than 27.68 billion yuan in taxes to the state. This is approximately 3.9 fold the 7 billion yuan spent by the

state on supporting township enterprises. They also turned over more than 30.8 billion yuan in profits to township governments, financing much of the expenditures of grass-roots government. In addition, they also spent 5.5 billion yuan on public welfare projects. Employment in township enterprises more than quadrupled in 10 years, increasing from 17.9 million in 1976 to 71 million in 1986. In 1986, township enterprises employed 20 percent of the total agricultural labor force, and, to an extent, eased the employment problem of the country's surplus labor.

We must not underestimate the contribution of township enterprises toward developing export-oriented products. In 1985, there were more than 8,000 township enterprises nationwide which earned foreign exchange through exports. They produced 20 major categories, more than 10,000 varieties, of products which are sold in nearly a hundred nations worldwide, and earned more than \$4 billion, 15.5 percent of the nation's total foreign exchange earnings, in 1985.

According to a RENMIN RIBAO report, between 1982 and 1986, township enterprises exported a variety of products from more than 20 different industries, including foodstuff, textile, garments, mechanical and electrical products, minerals, building materials, chemicals, electronics, pharmaceutical products and apparatus, light industrial products, native and livestock products. Among traditional handicrafts, township enterprises account for 60 percent of the nation's total export of fireworks and firecrackers which are shipped to more than 50 countries worldwide. Other luxury goods such as electronic organs, refrigerators, and electric fans are also targeting the world market. Jiangsu's township enterprises topped the nation in total output value, and in 1985, they exported more than 1,025 different kinds of products to 45 nations worldwide, and brought in nearly \$300 million, 7.5 percent of the total foreign exchange earned by all township enterprises in 1985. Zhejiang ranked second in total output value. They exported more than 2,000 kinds of products in 1985, and directly or indirectly earned 360 million yuan in foreign exchange. Their products are sold in more than 40 nations worldwide.

The development of township enterprises has been spectacular. Many of these enterprises are now turning their attention from the domestic market to the foreign market, and are actively developing export goods. Township enterprises in Jiangsu play an especially important role. In 1985, as many as 850 enterprises were exporters, and the total purchase of their export products made up almost 3 percent of the total township enterprise income. The town of Xiasha in Nanhui County in suburban Shanghai Municipality has 10 factories run by townships and villages. Their products include wood screws, plumbing fixtures, gaskets, galvanized wire, containers, and silk garments, and they earn more than \$6 million a year. There are more than 50 township enterprises in

Jiangsu's Wujiang County which process export products, and total purchases exceed 30 million yuan per year. In Zhejiang Province, more than 1,020 township enterprises are in the world market, and they have significant foreign exchange earning capacity. According to statistics, total export purchase from township enterprises in Jiangsu, Shanghai, Zhejiang, Fujian, Shandong, Guangdong, Tianjin, Beijing, and other provinces and municipalities is growing at a rate of more than 18 percent per year.

II

1. Combine Commerce, Industry, and Agriculture, and Vigorously Develop Export Products

Because of their proximity to the major coastal cities, and in order to accommodate the production structure of the commercial, industrial and agricultural sectors in the Zhujiang Delta, Changjiang Delta, and Minnan's tri-city area of Xiaman, Zhangzhou, and Quanzhou, township enterprises in southern Jiangsu, Zhujiang Delta, Liaodong Peninsula, Jiaodong Peninsula, and suburban Beijing, Tianjin, Shanghai, and other major cities have stepped up efforts to develop commerce, industry, and agriculture. Township enterprises in Zhejiang Province, on the one hand, have established close ties with the foreign trade department to develop foreign markets for their products, and on the other hand, they also make the most of their raw material base, and turn selective areas and factories into industrial parks and specialized factories which are geared to serving the needs of the export trade.

2. Rely On Local Materials and Resources, Develop Lateral Ties, Establish "Lead" Enterprises, Develop Prestigious Export Products

Cities and counties are urged to take advantage of local resources, and develop their main industries on the foundation of locally available labor force, technologies, and natural resources. Township enterprises in Baoding Prefecture upheld this principle, and took measures to develop lateral ties and open up channels. As a result, the prefecture has established 10 enterprise complexes to process and manufacture carpets, building materials, arts and crafts, acrylic textile, garments, cotton goods, man-made leather goods, food products, pharmaceutical products, electronic and electrical materials and appliances. They also take advantage of their proximity to the tri-city area of Beijing, Tianjin, and Baoding, and enter into economic cooperation with these major cities. More than 3,800 enterprises have joined this economic alliance, and 9 regions have linked up with the foreign trade department, and set up "lead" enterprises to produce export goods. These enterprises also distribute their products to more than 5,000 processing points to form an extensive enterprise colony.

3. Make Up For Deficiencies, Development Small Goods

Different nations have different resources and industrial structures, and are at different levels of economic development, and therefore there are various degrees of demand for primary goods, semi-processed goods, and finely processed goods in the world market. In order to satisfy these demands, township enterprises are vigorously developing as many kinds of products as can be exported under present conditions, and while they maintain a steady supply of traditional staple export goods, they have established new export product bases, and actively developed large varieties of small goods which are exported in small batches of different designs and colors, and these small goods serve as supplements to capture markets previously neglected, and earn more foreign exchange.

4. Cooperate With Foreign Businesses, Be a Part of the World Market

For township enterprises to be successful in the world market, we must produce goods which meet the needs of the world market. To improve quality and make the products more competitive, township enterprises are stepping up the implementation of the policy of opening up to the outside world and enlivening the economy, and while they take full advantage of the natural resources, and develop industries which are based on raw materials, they also attract foreign funds, import equipment and technology to integrate modern technology with traditional craftsmanship, and develop prestigious, quality, and unique products. Through equity and contractual joint-ventures and other arrangements with overseas Chinese and foreign businesses, township enterprises have brought in advanced and practical equipment, technologies, craftsmanship, and management skills. The town of Jiangkou in Fujian's Putian County utilized funds invested by overseas Chinese to import advanced technologies and equipment, and through various joint operation arrangements, it has put its products on the world market. Today, there are 1,159 large and small enterprises in the township, and more than 100 of the collective enterprises were brought in from overseas, and they process imported materials. Since 1983, Jiangkou has absorbed more than \$1 million in overseas Chinese investments, and much of the funds are spent on purchasing computerized automatic spinning frames, and new equipment for the garment, chemical, home furnishing, and other industries. At present, the township has attracted more than 20 projects from abroad, and most of their products are destined for the world market. High-quality embroidered garments made by Shanghai's Beicai Embroidery Factory are sold in Japan, the U.S., and more than 20 other nations worldwide. The factory earns 9 million yuan in foreign exchange a year. Its export products continue to improve in quality, and are internationally acclaimed. Six of its products have won gold medals in international competitions, and other products have also earned gold or silver medals, and awarded *laissez passer* by importers.

III

Many factors contributed to the rapid development of township enterprises and their conversion to an export-oriented product mix. Some of the main factors are:

1. Township Enterprises Evolved From A Single-Product Economy Into A Diversified Economy, From Being Small And Comprehensive To Being Specialized, From A Closed Economy To An Open Economy As A Result of the Policy To Enliven The Domestic Economy And To Open Up to the Outside World

Enlivening the domestic economy and opening up to the outside world is China's long-term policy. Since 1979, a series of reforms based on the household contractual responsibility system have been implemented in the villages resulting in the rapid development of township enterprises which are specialized producers. The rural economy began to specialize, commercialize, and modernize. In 1986, forestry, animal husbandry, side-line and fishery products accounted for 51 percent of the GVAO, and 63.9 percent of the industrial and agricultural output were in the form of commercial products.

2. Increased Autonomy Mandated Greater Diversity and Versatility of Enterprise Production and Operation

From the point of economic structures, Chinese township enterprises consist of collective enterprises, various equity joint ventures, and individual enterprises, with the former two being the predominant forms. From the point of leadership and management systems, township enterprises are responsible for their own profits and losses, and have the right to operate independently.

3. Township Enterprises Have Abundant Supplies of Labor and Agricultural Resources Which Facilitate Unified Development of "Planting, Breeding, and Processing," And They Can Supply A Variety Of Export Goods

Processing agricultural products is an extension and continuation of agricultural production. Many township enterprises pay special attention to processing their own agricultural products to increase their value. Some enterprises have set up production bases which use agricultural products as raw material. This gives rise to township enterprises which integrate "planting, breeding, and processing." The Agriculture, Livestock, and Fisheries Department has plans to set up several agricultural, animal husbandry, and fishery bases which are geared to serving the export trade. Agricultural and side-line products have historically been an important part of China's foreign trade. In 1984, the country's total export was worth \$24,416,000,000, \$4.12 billion were attributable to agricultural and side-line products, and \$3.3 billion, 13.52 percent of the total export, were goods produced by township enterprises. This proves that there are great prospects in developing processed agricultural products for export.

IV

In recent years it has become obvious that township enterprises play an important part in expanding export trade, and they have caught the attention of the state and foreign trade departments. The central government has tentative plans for increasing the export of agricultural and side-line products, striving to earn more than \$7 billion by 1990.

12986

FOREIGN TRADE, INVESTMENT

Conference Urges Country's Development of 'True' Multinational Corporations

40060133 Shanghai SHIJIE JINGJI DAOBAO in
Chinese 25 Jan 88 pp 1, 16

[Article by Editor Lu Yi [7120 0001], based on a report filed by Beijing Correspondent Yu Mingshan [0060 2494 1472]: "China Should Seize the Moment To Establish Multinational Corporations: Chinese Enterprises Are Generally Becoming Internationalized; In Certain Respects, Some Firms Now Operate Multinationally in Form, But, in Terms of Actual Activity, Pitifully Few Companies Are True Multinationals"]

[Text] Chinese firms generally are becoming internationalized—this is the trend of the times. And seizing this opportunity to develop multinational corporations undoubtedly would show that China is courageous in her intent to enter the global economic arena. This was the unanimous view of the delegates attending the jointly convened First Conference and Study Session of the Multinational Corporation Research Center.

Experience in the development of the world economy has shown that multinational corporations have become the main actors on the global economic stage and are proliferating like dividing cells, controlling more than one-half of all world trade.

In his keynote address to the meetings, Sun Weiyan [1327 4850 3508], director of the Multinational Corporation Research Center, stated that the depth and breadth of the policy of opening up to the outside world is reflected in certain regards in the degree attained in international economic and technological exchange and cooperation and that such important elements in the opening-up policy as commodity imports and exports, technology imports and transfers and inflows and outflows of capital all are either directly or indirectly related with multinational corporations. Professor Yao Cengyin [1202 2582 5593] of the College of Foreign Economic Relations and Trade argued that global competition takes place not between medium and small enterprises but between monopolistic conglomerates and that if China is to enter the international economic arena she will have to go the multinational route.

Thus it is very essential that we study multinational corporations. Sun Weiyan stated that, as China opens up more and more, the urgency and importance of "going out" will become increasingly apparent, and to a certain extent, "going out" will help ensure we can keep saying "please come in," or at least will provide a strong guarantee that we can repay foreign debt, that we have sufficient foreign-exchange purchasing power when we open up part of our domestic market and that we can advance our international economic and technological cooperation.

In fact, besides exporting commodities, China is also exporting labor and investing and undertaking construction abroad. We now have more than 300 enterprises that are engaged in nontrade activities and that have directly invested some \$600 million abroad. Thus, in certain respects, some of our companies are already multinational in form, but when measured in terms of actual activity, pitiful few firms are true multinationals. Wang Linsheng [3769 2651 3932], assistant dean of the College of Foreign Economic Relations and Trade noted that multinationals are an advanced form of productive organization and wondered why foreigners can have such things while China cannot. We should boldly and confidently set about the task of establishing Chinese multinationals, he said, and rouse ourselves to catch up.

How should we do this? Zhou Huamin [0719 0553 3046], president of the China International Trade Society, stated that his visit to Japan left him with the strong belief that China, in internationalizing her enterprises, should go the route of Japanese trading conglomerates.

The China Chemical Import and Export Group can be said to be China's first multinational corporation. Zheng Dunxun [6774 2415 6064], president of that company, stated that his firm wants to diversify but has just finished drawing up the plans for and is only now getting started on this project. How is the firm getting started on this? First, he said, it will make full use of existing agencies abroad to raise capital. Then it will make its operations more varied and flexible. And finally it will organize its affiliates into groups. He noted that, to date, his firm has not had the benefit of receiving any theoretical guidance on how to go about its restructuring. But, he added, once established, the Multinational Corporation Research Center, the first agency in China to study the theory and practice of and to provide consulting on modern multinationals, undoubtedly will offer his firm timely assistance.

In discussing the developmental direction of the Research Center, Sun Weiyan stated that the center will provide a theoretical interpretation of the historical phenomenon of "multinational corporations in the global economy," explore the relationship between multinationals and economic development, analyze the operational-managerial environment of multinationals, seek to provide proposals on policy and strategy concerning the internationalization of Chinese enterprises and the

need to operate Chinese firms multinationally, and strive to contribute to the policies of reform and opening up by promoting study and education and by providing consulting.

12431

Lin Hanjuan Urges Adaptation of Export Strategy to Changing Environment

40060150 Beijing SHIJIE JINGJI [WORLD ECONOMY] in Chinese No 11, 10 Nov 87 pp 62-67

[Article by Lin Hanjuan [2651 3352 7165]: "China Should Target Key Markets While Diversifying"]

[Text] Exports are a major source of China's foreign exchange earnings. As the nation's foreign economic intercourse expands, the role of exports becomes more and more important. As Premier Zhao Ziyang pointed out in his report on the Seventh 5-Year Plan, "China's ability to export and earn foreign exchange determines the scope and extent of its foreign economic relations, trade, and technological exchange, and conditions the scale and progress of domestic economic construction. It is a critical strategic issue that impacts the future of the policy of opening to the outside world." In the next few years, it is imperative that we devise an export strategy that is compatible with changes in the international economic environment as well as China's national circumstances in order to transform China's export trade. This article discusses a number of views on China's export strategy as it relates to markets and commodities in light of the changing economic environment in Asia and the Pacific.

I

The export market is where the value of export commodities is realized. Thus a vigorous effort to open up markets has traditionally been regarded as the key to an export drive. The market strategy of most developing nations these days is diversification, with which China's academic community basically concurs. But given China's economic development level and its existing foreign trade capacity, it seems we would do better to work out a targeted diversified market strategy.

The so-called targeted diversified market strategy, whose ultimate objective is genuine market diversification, combines the consolidation and development of traditional markets with a systematic effort to tap new markets, taking realities as our starting point.

Without any exception, a number of nations and regions that have chalked up fast export growth after the war—West Germany in the 1950's, Japan in the 1960's, and the newly industrialized countries [NIC's] and regions in Asia in the 1970's—started out by targeting specific markets. Only then were they able to introduce a new look in their export trade. This was particularly true in the case of Japan and the NIC's. By exporting massively

to the U.S. market and implementing an export-oriented industrial development strategy, they achieved not only fast export growth but also economic take-off. As for China, its export trade also managed to register substantial growth after the country was opened to the outside world by cultivating such markets as Hong Kong, Macao, Japan, and the U.S.

Judging by the foreign trade development history of nations around the world, most went through the process of gradually branching out from one or two markets to a multitude of markets. This process is compatible with an advanced industrial structure and goes hand in hand with improvements in a nation's export mix and its ability to compete internationally. At present, China's industry is not advanced enough. Its export mix is less than perfect. In addition, it lacks experience in foreign trade, qualified personnel, and access to information. Under these circumstances, it may actually hurt our export drive if we neglect to consolidate and develop traditional markets and instead over-emphasize market diversification and over-extend ourselves at the foreign trade front by striking out in all directions, thus spreading our human, material, and financial resources too thin. Certainly, to be excessively dependent on one or two markets is not desirable either. Not only will such dependency threaten to put our economy under the control of another country, but we may also find ourselves in a diplomatically passive position. Given the present situation, therefore, the best we can do is to combine the development of targeted markets with the cultivation of new ones.

Asia and the Pacific should take center stage in our targeted diversified market strategy. This is because more than any other region in the world, that area will help boost our export trade.

First of all, it is the Asian Pacific region which has achieved the most rapid economic growth in the world in the past decade. Here can be found the world's most attractive buyers' and sellers' markets. Since 1980, the U.S. and Canada have been doing more trade with this region than with Europe. The position of the Asian Pacific region in international trade is becoming more important. Currently over one third of total international trade is conducted in this region. As an Asian Pacific nation, China should compete vigorously in the Asian Pacific market.

Moreover, the Asian Pacific area is a traditional market for Chinese exports. Even before the nation was opened to the outside world, Japan and the Hong Kong-Macao region were already China's leading export markets. After China was opened, Chinese exports to the Asian Pacific region expanded rapidly and have continued to do so in the past 2 years. Chinese exports to the Association of Southeast Asian Nations [ASEAN], for instance, soared 60.8 percent in 1985 compared to the previous year. Chinese exports to Hong Kong and Macao registered a real increase of 30.8 percent in 1986. Of the

nation's 20 largest trading partners in 1986, 6 were in the Asian Pacific area and absorbed almost 62 percent of China's total exports. Familiarity with its market conditions, the result of years of painstaking work, is one reason Chinese exports to the Asian Pacific area have been able to grow so rapidly.

Third, the region also is a major source of Chinese imports, accounting for 60 percent of what we buy from abroad. Nevertheless, we have run up huge deficits with countries like Japan, the U.S., and the NICs in Asia. In 1986, China's combined trade deficits with Japan, the U.S., Australia, and Canada amounted to about 40.5 billion yuan, 97 percent of the nation's total foreign trade deficit that year. As a sellers' market, we have even more reason to demand that Japan, the U.S., and other countries buy more from us. Thus as far as Chinese exports to Japan, the U.S., and the NICs in Asia are concerned, there is much room for growth.

Fourth, countries in the Asian Pacific region are so diversified that bilateral trade can go a long way toward supplying one another's needs. At present, countries and regions in the area fall into four types economically: highly developed nations, such as the U.S. and Japan; NICs which have emerged in the past 20 years, such as Singapore and Hong Kong; middle-income nations which have arisen since the 1970's, namely ASEAN member-nations; and resource-rich developed nations, such as New Zealand and Australia. These four types of nations and regions differ in industrial structure and export mix, a fact which should greatly help us in developing bilateral trade with them since we can buy and sell goods at different levels, thus boosting export growth in the process.

Finally, China is joined to Asia and the Pacific geographically. Marine transportation is convenient and can save shipping and other labor expenses. This should help make our exports more competitive.

II

Even as we consolidate and develop the Asian Pacific market, we should pay special attention to economic trends in Japan with its enormous market potential. Every recent sign suggests that tremendous changes are taking place in Japan's foreign economic relations. That Japan's domestic market will open further is inevitable.

According to U.S. economist Samuelson, the balance of payments of a capitalist country is an indicator of its position in the four stages of economic development, namely a "young developing debtor nation," "mature debtor nation," "new creditor nation," and "mature creditor nation." Samuelson argues that postwar America was a "mature creditor nation" characterized by a reliance primarily on returns on foreign investment to balance its payments and the replacement of the foreign trade surplus by a deficit. As for Japan, Samuelson suggests that it was still in the third stage, that is, a "new

creditor nation," in the 1970's when one of its characteristics was a steadily increasing trade surplus accompanied by rising investments abroad and growing foreign indebtedness. But the signs in the past few years show that Japan is becoming a "mature creditor nation."

First of all, there has been a sharp increase in its overseas assets in the last decade. By late 1985, it was the world's top creditor nation. Since the 1960's when Japan, a former debtor nation, became a creditor country, its net overseas assets have been expanding rapidly at an average annual rate of 44.4 percent between 1969 and 1984. By late 1985, it had accumulated over \$100 billion in net overseas assets, making itself the world's foremost creditor nation.

Second, the enormous returns on its overseas assets have boosted Japan's balance of payments position with each passing day. The sharp increase in overseas assets made a rise in returns on foreign investment all but inevitable. Since the late 1970's, there has been a significant increase in investment returns in Japan's balance of payments. Between 1979 and 1985, the return rate on Japan's overseas investments averaged 16.2 percent annually, way above the export growth rate of 9.4 percent. In 1979, Japan earned \$8,965,000,000 on its overseas investments. By 1985, the figure had soared to \$22,114,000,000. The trend points to an even steeper climb in investment returns ahead, which will play a more and more important part in Japan's balance of payments.

Third, Japan's persistent trade surplus has led to a sharp appreciation of the yen, making it difficult for Japan to maintain its trade surplus at a high level. Since mid-1985, the yen has been appreciating against the dollar steadily. After the six Western nations reached the Paris accord in February 1987, the exchange rate at one point fell below \$1:¥140. Subsequently the dollar recovered somewhat. In July 1987, the exchange rate basically stabilized at about \$1:¥145. What caused the value of the yen to soar was primarily Japan's longstanding trade surplus, particularly its surplus with the U.S. But the upward movement of the Japanese currency would actually work to the disadvantage of Japan's foreign trade. In the long haul, a more expensive yen is bound to affect the competitiveness of Japanese exports, making it easier for foreign goods priced in dollars to break into the Japanese market. As a matter of fact, the country's nominal exports in 1986 already dropped 16 percent compared to 1985. In the same period, its nominal exports to the U.S. declined 13 percent. It is foreseeable that when the "J curve" fully takes effect, Japan's massive trade surplus would shrink gradually even though its foreign trade surplus reached a record \$92.65 billion in 1986.

From the above analysis, it is clear that Japan is on the way to becoming a "mature creditor nation." This suggests that it will absorb more foreign goods while slowing down its own flow of exports. Currently, the U.S. is still putting pressure on Japan to further open up its market.

The Japanese government too has made all kinds of promises. Although Japanese groups with a vested interest in maintaining the trade surplus built up over the years would fight any such move strenuously with a variety of tactics, in the end they will not be able to reverse the general trend of economic development in Japan.

Be that as it may, Japan will open its market only if it is forced to and gradually at that. Only by remaining highly "sensitive" can China grasp every opportunity to enter the Japanese market. By exploiting the opportunity provided by the rising yen, Hong Kong, Taiwan, Thailand, and South Korea increased their exports to Japan by 38.9, 37.4, 34.7, and 28.3 percent, respectively, in 1986 over 1985. (Footnote 1) (Calculations based on figures in "Japan Statistical Monthly" April 1987, after converting into dollars.) China, however, saw its exports to Japan decrease by 24.5 percent. (Footnote 2) (China customs statistics. See "International Trade," 1987 No 5.) The opening of the Japanese market has just begun. At present, China still has a hefty deficit with Japan. The principle of "using imports to drive exports" should help our effort to break into the Japanese market. Thus as far as China is concerned, the Japanese market still has a good deal of potential. In a sense, it was the U.S., then the world's leading creditor nation and largest importing country, that was primarily responsible for the economic take-off of Japan and the NICs in the 1960's and 1970's. Today, Japan is replacing the U.S. as the world's No 1 creditor country, a fact which clearly has practical significance for China's export drive.

Other than Japan, fluctuations in the exchange rates of the NICs in Asia, our leading competitors in export trade, also should command our close attention. The exchange rate of the new Taiwan dollar climbed precipitately from \$1:40 new Taiwan dollars in early 1986 to \$1:31 new Taiwan dollars by late July 1987. The Hong Kong, South Korean, and Singapore currencies also have risen in value against the dollar. As in the case of the yen, the appreciation of the currencies of these NICs is essentially a result of their persistent trade surpluses, especially their surpluses with the U.S. Taiwan, for instance, ran up a trade surplus of \$13.5 billion with the U.S. in 1986. Under U.S. pressures, these countries and regions had no choice but to reevaluate their currencies upward against the dollar. Changes in the exchange rates of the NICs will definitely have some impact on the sellers' market in the Asian Pacific region. Since the exports of the NICs are all priced in the dollar and are mostly destined for markets in the Asian Pacific region, their exchange rate adjustments against the dollar will slow down their flow of exports to other nations in the region. In addition, NICs have been hard at work in the past few years restructuring their economies and stimulating domestic demand. As a result of these two factors, NIC exports may come to account for a smaller share of the Asian Pacific market. This portends new opportunities on the buyers' market in the region, particularly the prime destination of the exports of the NIC's—the U.S. market.

III

Another important aspect of China's export strategy is its export mix strategy. Essentially the export mix strategy must satisfy the needs of the international market and be compatible with China's industrial structure.

To come up with an appropriate export mix strategy, we must understand changes and developments in the international division of labor and our role in it. Since we are located in the western Pacific, our exports must compete primarily with other nations and regions in that area. Thus the state of the international division of labor in the western Pacific is the first thing we must examine.

Over the past 20 years, two important changes have occurred in the international division of labor in the western Pacific. The first change began in the second half of the 1960's when Japan gradually shifted its labor-intensive industries overseas and devoted itself to export-oriented capital- and technology-intensive industries. After successfully substituting labor-intensive imports with domestic products, NICs began exporting these products in massive quantities. In the 1950's and 1960's, Japan was the leading supplier of labor-intensive goods in the Asian Pacific region. From the late 1960's onwards, however, its position was increasingly challenged by the NIC's, as demonstrated by the stiff competition encountered by Japanese goods on the market for labor-intensive products. Take, for instance, textiles and clothing, the classic examples of labor-intensive products. In 1969, 40.5 percent of the textile and clothing exports of the NICs wound up in the key market in Asia and the Pacific—North America, where they accounted for 21.1 percent of all such products imported by North America. In the same year, 30.3 percent of Japan's textile and clothing exports were shipped to North America, making up 24.1 percent of North America's textile and clothing imports. The competition between Japan and the NICs on the market for labor-intensive products in Asia and the Pacific lasted for about 10 years. By the late 1970's, NICs had taken over Japan's former position. For example, in 1979 textile and clothing exports by NICs exceeded those from Japan by more than twofold and took up 44.5 percent of the North American market. Japan's market share was a mere 6.5 percent. (Footnote 3) (Japan Asian Club, "The Present Condition and Future Prospects of the Asian Pacific Economy," 1984 edition, Tokyo, pp 76-77)

The second change in the international division of labor in the western Pacific began in the late 1970's and early 1980's. It manifested itself in the competition between NICs and Japan as exporters of certain capital- and technology-intensive products and the competition between ASEAN member-nations other than Singapore and the NICs as exporters of labor-intensive products. In 1984, for instance, machinery and transportation equipment constituted 34.8 and 31.7 percent of South Korea's and Singapore's exports, respectively. That same year, electronic and electric products made up 19.3, 20.4, and

28.5 percent of the exports of Taiwan Province, Hong Kong, and South Korea, respectively. Most of these products were destined for the Asian and Pacific market and competed with similar Japanese goods. After substituting some labor-intensive imports with domestic products in the early 1970's, the four ASEAN nations began exporting such products. By the end of the decade, these countries had significantly increased their labor-intensive exports. Between 1969 and 1979, for instance, the textile exports of the four ASEAN nations jumped 16.5-fold, boosting their share of the North American market from 0.9 percent to 4.0 percent.

At present the international division of labor in the western Pacific is undergoing the second change. The reason is that although NICs have been competing with Japan in some technology- and capital-intensive industries, Japan still enjoys a clear edge. And while the four ASEAN nations have made substantial gains as exporters of labor-intensive products, their market share pales in comparison with that of the NIC's. This situation is both a challenge and an opportunity to our export drive.

It is a challenge because the international division of labor in the western Pacific is fueled by the pursuit of products with a relatively high added value and is determined by comparative cost advantage/disadvantage. In the 1970's, NICs were able to edge out Japan from the market for labor-intensive products mainly because their labor costs were lower. Japan, for its part, also gave up competing on that market in order to go after capital-intensive industries producing goods with a higher added value. During the 1980's, the four ASEAN nations have been following in the footsteps of the NIC's, while the latter were pushing to reach a higher industrial level. The development of the international division of labor in the western Pacific, in which late-comers drive on those before, poses a severe test for China. Only by engaging in this international division of labor and continuously making our products more competitive can we catch up with its rapid pace. Otherwise we will fall behind other nations once again.

It should be noted that there are signs the international division of labor in the western Pacific is accelerating. First, in the wake of the appreciation of its currency, Japan has speeded up the transfer of some industries to the NIC's. A more expensive yen has pushed up labor costs in Japan to levels similar to those in Western Europe and North America. Now that the country's comparative cost advantage is further whittled away, Japan has no choice but to move some industries overseas. In the past, Japan's overseas production base was the U.S. In expanding its production base abroad recently, however, Japan has been focusing on Taiwan, South Korea, and Singapore. The transfer of Japanese industries to NICs will expedite industrial modernization in those nations and regions. The second catalyst is the trend among NICs to shift their industries to ASEAN nations. A most prominent example in this regard is Taiwan. Like the yen, the new Taiwan dollar has risen

sharply against the dollar, which will only erode the international competitiveness of Taiwanese products. Meanwhile, Taiwan's foreign exchange has been soaring in recent years and is expected to pass the \$60 billion mark in 1987, which is why Taiwan relaxed foreign exchange controls in July 1987. It is against this backdrop that the trend appears of a shift of Taiwan capital to ASEAN countries. If this trend quickens, it will stimulate industrial modernization in ASEAN.

On the other hand, the rapidly changing division of labor in the western Pacific also provides a good opportunity for China's export drive, notably in the market for labor-intensive products. There are three major reasons for this.

First, NICs used to enjoy a large slice of the market for labor-intensive products in Asia and the Pacific. Nowadays, however, their market share is shrinking. For one thing, in their eagerness to manufacture higher value-added products, the NICs have been going all out to upgrade their industries and secure a foothold in the market for capital- and technology-intensive products. For another, as their economies develop and labor costs rise, NICs are fast losing their comparative cost advantage as producers of labor-intensive products. More and more, they have to compete with the four ASEAN nations, which have lower labor costs. The 1985 recession in Singapore, its worst in 20 years, illustrates vividly the economic transition that the NICs are now undergoing. As far as the market for labor-intensive products is concerned, it is inevitable that the NICs will see their share of the pie diminish.

Second, it may be the hope of the four ASEAN nations to replace the NIC's, but their wish will not be fulfilled in the short haul because of the influences of the traditional industrial structure. It is true that these countries began exporting labor-intensive products as early as the first half of the 1970's and have repeatedly talked of increasing the share of finished industrial exports since 1980. Nevertheless, the difficulties of adjusting the traditional industrial structure have prevented any dramatic changes in their export mix. Currently primary products account for more than 65 percent of the total exports of each of the four nations, with Indonesia having the highest percentage, almost 90 percent. In the past, it took almost 10 years for the NICs to corner the Asian Pacific market for labor-intensive products. If the four ASEAN countries want to replace the former, they will need at least the same amount of time. If we count from the late 1970's and early 1980's, it seems that the four ASEAN nations would not be able to achieve their goal before the early 1990's. This suggests that there will be a succession period lasting 3 to 5 years on the Asian Pacific market for labor-intensive products. During this period, neither the NICs nor the four ASEAN nations will be competing at their optimal.

Third, the position of advanced nations on the labor-intensive market in Asia and the Pacific will continue to decline. In the early 1980's, U.S. and Japan were locked

in a race to develop high-tech industries, the result of which will be the further withering of labor-intensive industries in those countries. Japan, which used to enjoy a relatively large market share in the region, has been scaling back its labor-intensive industries steadily in recent years. This trend foreshadows a kind of vacuum in the market for labor-intensive products in Asia and the Pacific.

We can see that there will be many opportunities in the Asian Pacific market for labor-intensive products in the next few years. We should promptly draw up a short- and medium-term export strategy revolving around labor-intensive products and strive to turn our longstanding trade deficit into a surplus by the late 1980's. To focus our export drive on labor-intensive products within a specified period of time not only is compatible with our role in the international division of labor in the western Pacific, but is also consistent with China's national conditions.

China's present status in the international division of labor in the western Pacific is roughly between that of the NICs and the four ASEAN countries, as demonstrated by the fact that in terms of export mix, it fares better than the latter but not as well as the former. In recent years, industrial finished products consistently made up more than 50 percent of China's total exports, increasing to 64 percent in 1986, a proportion clearly higher than that in the four ASEAN countries. Thus we are well placed in the international division of labor in the western Pacific to overtake the ASEAN countries and replace the NICs as the major supplier of labor-intensive products in Asia and the Pacific. Moreover, with its abundant labor resources, China boasts even lower labor costs than the ASEAN nations. Besides, light and textile industries, which are labor-intensive, are solidly established in China and have been selling briskly abroad. Given good management and breakthroughs in non-price competition, therefore, China's labor-intensive industries should be able to tighten their grip on the international market.

Labor-intensive products have a smaller added value and are presently more vulnerable to protectionist measures in the advanced nations. On the other hand, to develop and export labor-intensive products is essentially consistent with the country's present industrial structure and level. By exporting labor-intensive products in large quantities, we can provide much-needed foreign exchange for China's technology- and capital-intensive industries, thereby creating the conditions for their development and industrial transformation. As for protectionist policies, at a time when social production is being increasingly internationalized and nations are becoming more and more interdependent economically, any excessively protectionist measures might backfire, a point recognized by the governments of some developed nations, including the U.S. Protectionism is an aberration in international economic relations today and will not last. Besides, we are running a deficit with Japan,

U.S., and other developed nations in Asia and the Pacific. Right now it appears that China is not the prime target of the protectionist measures of those nations.

While we stress targeting labor-intensive products in the short and medium term, we are certainly not suggesting that we should abandon our effort to expand other types of exports. China's heavy and chemical industries have their own characteristics and are fairly competitive. Moreover, some heavy industrial and chemical products have secured a foothold in foreign markets. Heavy industrial and chemical products have a higher added value and are twice as profitable compared to labor-intensive products. Taking a long term view, therefore, we should make heavy and chemical industries the centerpiece of a medium and long term export strategy. Primary products, notably minerals, fuels, and foodstuff, are China's traditional exports and should remain its staple exports.

12581

Netherlands To Coproduce Optical Fiber in Equal Investment Venture

OW060023 Beijing XINHUA in English 1318 GMT 5 Mar 88

[Text] Beijing, March 5 (XINHUA)—China and the Netherlands will cooperate in manufacturing optical fibre and optical cable of world level.

A contract on setting up a Chinese/Dutch joint venture for optical fibre and cable production in Wuhan, central China, was signed here today between Wuhan Trust Loan Investment Corporation and Wuhan Optical Fibre Communication Technology Company, and Philips of the Netherlands.

The total investment of the project will be 72.5 million guilders and the two sides will invest equally in the venture. The contract will last 20 years.

The joint venture will introduce Philips' technology and the equipment of the 1980s.

The enterprise, China's biggest joint venture of high-tech, is expected to produce 50,000 kilometers of optical fibre and 45,000 kilometers of optical cable annually when completed by 1990. Its products will be sold on domestic and international markets. 00811

ECONOMIC ZONES

Hainan's Foreign Exchange Earnings Top \$100 Million

40060156 Beijing RENMIN RIBAO in Chinese 7 Feb 88 p 2

[Text] In 1987, Hainan's exports earned \$123 million, marking the first time that such earnings exceeded \$100 million. This represents a 220 percent increase over 1986

and a new record for Hainan's foreign exchange earnings. Since last year, Hainan's foreign economic relations and trade departments have actively made use of foreign investment, built up an export commodity production system, and opened themselves up to foreign markets. They have adopted measures to encourage export enterprises to export more and earn more foreign exchange, to promptly adjust the amount of foreign exchange that local industrial, agricultural, and trade corporations can retain, and to carry out the system of allowing retention of above-quota profits and the contract responsibility system. All import and export corporations have made the earning of foreign exchange from exports the focus of their enterprise reform and have striven to arouse the initiative of their personnel. Hainan's Foreign Economic Development Corporation has divided export targets into five categories: organizing supplies of goods, signing contracts with foreign partners, transporting exports, bringing all export-related functions under one roof so as to make enterprises shift from handling one export-related function to handling multi-export-related functions, and finally, increasing overall enterprise stimulation. Last year, this corporation earned a total of \$18 million from its exports, becoming the largest foreign-exchange earning corporation among all industrial, agricultural, and trading corporations. Also last year, Hainan's import and export corporations continued to focus on opening themselves up to foreign markets and developed the scope of their export markets beyond Hong Kong and Macao to Western Europe, the United States, and Japan.

POPULATION

Family Planning Minister on 'Corrupt Marriage Customs'

OW020439 Beijing XINHUA Domestic Service in Chinese 1638 GMT 26 Feb 88

[Text] Harbin, 26 Feb (XINHUA)—At a national conference to exchange experiences in eliminating corrupt marriage customs and promoting the building of a socialist spiritual civilization, which opened today, Peng Peiyun, minister in charge of the State Family Planning Commission, issued an appeal: All strata and departments in our society must work together to eliminate corrupt marriage customs.

In recent years, such corrupt customs as early marriage, early childbirth, arranged and mercenary marriage, and spending lavishly on weddings have again surfaced in some localities, and the situation has been very serious in some places. According to the estimate of a typical survey, the proportion of early marriages in rural areas conducted in violation of the law provision on marriageable age has generally reached from 15 to 20 percent, and in some areas the proportion has reached as high as 30 percent. Some people married at age 12, and many live together as husband and wife without completing marriage registration. In some areas the practice of spending lavishly and squandering money on wedding and of

ving with each other for ostentation is on the rise. In other areas such bad customs as arranged and mercenary marriage and child betrothal have frequently cropped up.

Comrades attending the conference pointed out: Bad marriage customs harm the mental health of youth, go beyond the present consumer level of the people in our country, and create heavy economic and mental burdens for married couples and their parents and families. Many married couples could not bear the load of heavy debt. This has affected family harmony and social stability.

The conference participants issued an appeal: All walks of life in society should pay attention to marriage and family problems. The Ministry of Civil Affairs, CYL, Women's Federation, and other departments should coordinate their work, have a sense of responsibility to the nation and its future generations, and mobilize all forces in society to shape up public opinion that will

encourage the people of the whole country to reject corrupt marriage customs and other bad habits in society and to further advance the great cause of building the two civilizations.

At the conference, which was convened upon the suggestion of the Ministry of Civil Affairs, State Family Planning Commission, All-China Women's Federation, and CYL, units from Harbin City and other localities briefed conference participants on their experiences in eliminating old marriage customs.

AGRICULTURE

Jiangxi Spark Plan Investment

*40060163a Nanchang JIANGXI RIBAO in Chinese
7 Feb 88 p 1*

[Excerpt] Since 1985, Jiangxi Province has invested nearly 100 million yuan in 258 spark plan projects.

He Dongchang Interviewed on Overseas Students
HK100619 Beijing ZHONGGUO XINWEN SHE in Chinese 0252 GMT 2 Mar 88

[Excerpts] Paris, 2 March (ZXS)—Answering questions from this reporter on how to give full play to the role of returning overseas students, He Dongchang, vice minister of the China State Education Commission, stressed: "In accordance with China's national conditions, we need to give full play to the academic standards of overseas students. However, we must give more emphasis and preference to their level of contribution."

Responding to the question on how to further improve working and living conditions so as to enable returning overseas students to work more effectively for the cause of construction, He Dongchang said that the government has already taken steps to improve conditions in both aspects. With the growth of the country's economic might, and the importance placed in the advancement of science and technology, material conditions will be gradually ameliorated. For instance, with regard to science and technology, a large number of key laboratories will be built and a batch of key courses will be offered.

Another measure is the policy of relaxation, that is, to encourage people engaged in scientific research and teaching to carry out remunerated services in society on condition that they first complete the work at their posts. The income earned could thus be used to improve their own working and living conditions.

He Dongchang said: Certain existing conditions in the country indeed leave much to be desired, and it is for this reason that there is need for reforms. However, reforms cannot be completed in one day, and that better conditions will require common efforts to achieve. The older generation of overseas students have set an example for us in this area. I believe that the great majority of overseas students will not say: "You go ahead and create the conditions, while I will wait abroad for you to create the excellent conditions, then I will return."

On the "reasons overseas students continue their stay abroad despite completion of studies," He Dongchang said: There are all sorts of reasons. As far as overseas students are concerned, there are those who believe that the salaries at home are lower and that they can earn more abroad; another is how to deal with the relationship between academic standards and the level of contribution, and some people have one-sided notions on this. Domestically speaking, there exists indeed in the country the question of making proper arrangements and placements. On this, the State Education Commission acts primarily as go-between for returning overseas students at present and arranges direct meetings between the students and their future employer-units.

He Dongchang indicated that the overseas students he came into contact with during his visit all loved the motherland, were very concerned with the reforms in the country and were all very hardworking and studious. Based on the

excellent role played by the 20,000 overseas students who have returned to the country in the development of science and technology at home, the absorption of useful foreign experiences and the enlivening of ideas on reforms at home, it has been proven that the state's decision to send large groups of people to study abroad is an entirely correct one. This policy will be continued in the future. Finally, he repeated the eight words of exhortation for all overseas students, young and old alike, to share: "patriotism, unity, self-respect and pioneering spirit".

WEN WEI PO Notes 'Futurology' Movement
HK010104 Hong Kong WEN WEI PO in Chinese 23 Feb 88 p 3

[Excerpts] Beijing, 21 Feb—The world is advancing toward the future. China is also advancing toward the future, and challenging the future as well. Then, what will the future like in this world? How can people have the future well in hand? These questions have made the study of "futurology" go deeper and deeper in China.

Qin Linzheng [4440 7792 1794], secretary-general of the China Futurology Society, said that the society has now some 5,000 members in 50 groups throughout the country. Qian Xuesen, Mao Yisheng, Huan Xiang, Tong Dalin, and Yu Guangyuan are advisors to the society.

He said: China's study on the future has also been valued and acknowledged by the world. The 10th world futurology seminar will be held in Beijing from 3 to 8 September this year, and one day during the seminar will be selected for special discussion on "the future of China's development." Toeffler, the well-known American futurologist and author of "The Third Wave," may also come to China to attend the seminar.

In 1986, with the help of "futurology," the Economic, Technological, and Social Development Research Center of the State Council completed a general report on "China in the Year 2000" (including 13 smaller reports), which designed a center for general development in China. This report will be published in succession in the future.

Moreover, Song Jian and others have used the "futurological" method to study the policy concerning the "centenary of Chinese population" from 1978 to 2078. The futurology society has also made use of the systematic dynamics of "futurology" to design a plan for the development on Hainan Island in the next 30 years. Some of its ideas have already been accepted.

Compared with some developed countries, China has lagged behind in developing "futurology." It has still not been popularized in universities. In the United States, not only in universities but also in many enterprises, there are some units specializing in the study of "futurology." The China Futurology Society has discussed the matter with the Higher Education Research Office of the State Education Commission on how to popularize "futurology" and help China advance toward a brilliant and colorful future.